Office of the Inspector General

November 2, 1998

Linda S. McMahon
Regional Commissioner

Assistant Inspector General
for Audit

Accounting for Social Security Benefits by Contra Costa County, California

The attached final report presents the results of our audit of Contra Costa County's (County) accounting for Social Security benefits received on behalf of children in its care (A-09-98-52009). The primary objective was to determine whether the County had used the funds for the benefit of the children. We also determined whether the County: (1) paid the children interest that was earned on their funds, (2) complied with the Social Security Administration's policy regarding retroactive reimbursement for foster care costs, and (3) accounted for the individual children's fund balances.

You may wish to comment on any further action taken or contemplated on our recommendations. If you choose to offer comments, please provide them within the next 60 days. If you wish to discuss the final report, please call me or have your staff contact William Fernandez, Director, Benefits Payments, at (510) 970-1739.

Pamela J. Gardiner

Attachment

OFFICE OF
THE INSPECTOR GENERAL

SOCIAL SECURITY ADMINISTRATION

ACCOUNTING FOR SOCIAL SECURITY BENEFITS BY CONTRA COSTA COUNTY, CALIFORNIA

November 1998 A-09-98-52009

AUDIT REPORT

Office of the Inspector General

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Regional Commissioner

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Accounting for Social Security Benefits by Contra Costa County, California

This report presents the results of our audit of Contra Costa County's (County) accounting for Social Security benefits received on behalf of children in its care (A-09-98-52009). Our audit focused on the purposes for which the County used children's funds and how it accounted for those funds.

We concluded that the County used these funds for the benefit of the children. However, it inaccurately calculated interest earned on the children's funds. In addition, the County received reimbursement retroactively for foster care costs without complying with the requirement as representative payee (Rep Payee) to obtain prior authorization from the Social Security Administration (SSA). Finally, the County did not adequately account for Social Security benefits received and costs incurred on behalf of the children. We noted that the County initiated new procedures in December 1997 which, if implemented as designed, should improve its capability of calculating earned interest and accounting for individual children's benefits.

BACKGROUND

In January 1998, the Office of Investigations (OI) requested that we audit the Social Security funds received by Contra Costa County on behalf of children in its care. OI had conducted an investigation in response to a citizen's complaint that the County was diverting much of the funds to purposes other than the care of the children. The complaint included an allegation that the Board of Supervisors, in June 1995, approved a transfer of children's money to the Sheriff's Department. The County explained that the motion concerned budget transfers and that Social Security money was not deposited in the affected funds. During its investigation, OI examined a judgmental sample of benefits paid to 30 children in the County's care and had questions concerning benefits for 19 of them. Due to its questions about these 19 cases and the fact that children's benefits were deposited in the general fund, OI continued to question whether the County had used the benefits solely to support the children.

The County's Department of Social Services (DSS) is responsible for providing services that support and protect families, individuals, and children in need. One service is to provide a foster care program for children. Through the program, children are placed with foster families or in group homes. The County reimburses the foster parents and group homes for the costs of the children's care and, in turn, is reimbursed for some of its costs through Federal and State programs. The County provided foster care services to approximately 1,900 children, about 200 of whom received Social Security benefits.

Children in foster care receive Social Security benefits under two programs. Old-Age, Survivors and Disability Insurance (OASDI) payments are available to children if a parent is retired, deceased, or disabled. Supplemental Security Income (SSI) benefits are available to children who are blind or disabled and have limited family income and resources. In some cases, children are entitled under both programs simultaneously.

DSS serves as the Rep Payee for children in its care and is responsible for using the benefits in the children's best interests. Thus, Social Security benefits are used to reimburse the County for the costs of foster care provided to the children. The children's funds are also used to provide for other needs, such as special clothing, school supplies, and registration fees for sports programs.

Accounting for children's Social Security benefits is accomplished at two levels. The County Auditor-Controller accounts for the children's Social Security benefits in aggregate and DSS accounts for each child's benefits. In December 1997, DSS began using an automated data base to replace the manual ledger cards it had previously used for accounting purposes.

SCOPE

Our primary objective was to address OI's specific concerns about the County's use of the children's Social Security benefits and the adequacy of its accounting for those benefits. Our specific audit procedures addressed the following issues. First, we examined the transactions related to the alleged transfer of funds to the Sheriff's Department. Second, we determined whether DSS submitted Rep Payee accounting reports to SSA. Third, we determined whether DSS reported to SSA when a child exceeded the SSI eligibility resource limit. Fourth, we determined whether the County credited the children with interest earned on their unexpended funds. Fifth, we determined whether the County obtained authorization from SSA before reimbursing itself for past foster care expenses. During our audit, we noted that DSS used an unreliable method of accounting for the children's funds. Therefore, we expanded our scope to consider the effect of this method on the fund balances for the cases reviewed.

We reviewed the 19 cases previously questioned by OI for the period January 1994 through March 1998. We also reviewed the laws, regulations, and SSA procedural guidelines for Rep Payee accounting. We obtained an understanding of the County's procedures related to recording receipts and disbursements for the children in the County's care who received Social Security benefits. We reviewed County accounting records and, for several of the cases, we traced benefit payments from SSA's records to the County's records. We also traced selected foster care and other payments through the County's disbursement process for the same period. We limited our review of internal controls to obtaining an understanding of the accounting system used to control the children's funds.

We held discussions with officials from the Office of the County Auditor-Controller, the Office of the Treasurer-Tax Collector, and DSS in Martinez, California. We also spoke with officials at SSA's Region IX Office in San Francisco, California. We conducted our audit during the period March through July 1998. Our audit was conducted in accordance with generally accepted government auditing standards.

RESULTS OF AUDIT

For the 19 cases we reviewed, we found no evidence that the County used children's Social Security funds for purposes other than for the care of the children. DSS was complying with the requirement to submit the annual Rep Payee accounting reports to SSA. We also noted that, for the cases reviewed, DSS notified SSA when it determined that the balance in the child's ledger reached the $2,000 eligibility limit for SSI. However, the County inaccurately calculated interest earned on children's funds. In addition, DSS did not obtain the required authorization from SSA before receiving retroactive reimbursement, as Rep Payee, for foster care costs. Finally, DSS did not accurately account for individual children's Social Security fund balances.

Interest Earned on Children's Funds

The County was not accurately calculating interest earned on children's Social Security benefits. As Rep Payee, DSS is responsible for conserving or investing any unexpended funds on behalf of the children.[1] During January through March 1998, the County received an average of approximately $130,000 per month in Social Security benefits for children. The benefits and any interest earned on them belong to the

[1] Title 20, Code of Federal Regulations, Sections 404.2045(a) and 416.645(a).

children.[2] The County's methods for recording the receipt and disbursement of benefits resulted in the amount of interest paid to the children being less than the amount earned.

The County had not always paid interest to children. In a meeting with OI in October 1997, County officials indicated that they were relying on State law as a basis for not paying interest. Nonetheless, on advice of the County Counsel, the County initiated efforts in November 1997 to rectify that situation. Since DSS had purged its records for periods prior to January 1, 1994, the County decided to pay interest retroactively from that date. Initially, interest was credited from July 1997 forward. County officials stated that efforts were underway to calculate interest for the remaining period. The interest calculations were to be based on the average daily balance of the children's funds and the interest rates earned by the County.

Interest was calculated at two different levels and both levels understated interest owed to children. First, the Auditor-Controller calculated interest based on the average daily balance of the Social Service Trust, a fund used to account for the children's money in aggregate. Second, DSS calculated the interest for individual children based on the average daily balance for each child.

The Auditor-Controller's calculations were inaccurate for the period before December 1997 because of the way in which benefit checks were recorded in the Social Service Trust. The benefit checks were deposited in the District Attorney's Domestic Relations Trust, a clearing account used by the District Attorney's Office to account for the receipt and disbursement of child support. At month's end, a journal voucher was used to transfer the benefits to two funds. To reimburse the County for the foster care, funds were transferred to the Welfare Aids Refund Trust (Welfare Trust), from which the foster care warrants were issued. The remaining funds were transferred to the Social Service Trust. Figure 1 depicts this flow of funds.

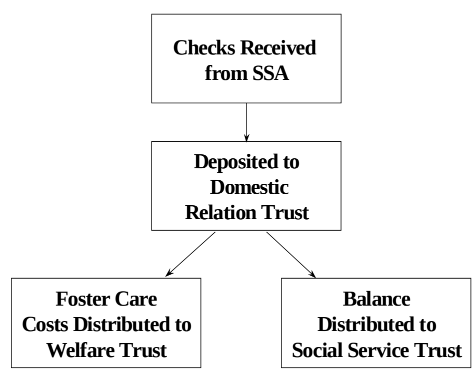

Figure 1. Processing of SSA Benefits

Recording the benefit checks in this manner introduced two errors into the interest calculations. First, since interest was calculated on the balance of the Social Service Trust, the amount transferred to the Welfare Trust was not included. Second, due to the delay between the receipt of the benefit check and the transfer of funds to the Social Service Trust, the periods used in the calculations were too short.

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[2] Program Operations Manual System (POMS), Part 02, GN 00603.010A.1.

In calculating interest, the Auditor-Controller should have included the amount transferred to the Welfare Trust because the County earned interest on those funds. SSA issued the benefit checks at the beginning of the month and the County did not make the foster care payments until the end of the month. However, the entire amount of the check, including the funds transferred to the Welfare Trust, was deposited through the County Treasury and interest was earned on it. Therefore, the Auditor-Controller's calculations understated interest by the amount earned on the funds that were transferred to the Welfare Trust.

The period used in calculating interest was too short because it did not include the time between the receipt of the benefit check and the transfer of funds into the Social Service Trust. The journal voucher transferring the funds into the Social Service Trust was not recorded until the month following the month that the benefit check was received. However, the Auditor-Controller used the date the funds were transferred into the Social Service Trust as the beginning of the holding period. Thus, the calculations understated the interest by the amount earned between the date the benefits were received and the date the funds were transferred to the Social Service Trust.

Since December 1997, benefit checks have been recorded to the Social Service Trust in their entirety, and foster care costs have been recorded after the payments were made. Recording the transactions in this manner should facilitate an accurate calculation of interest provided that the balance of the Social Service Trust is adjusted to credit the proper amount of interest to the children for the period before December 1997.

Like the Auditor-Controller, DSS did not credit the children's accounts with the full amount of interest earned due to the way that it recorded benefit checks. In most cases before December 1997, when a benefit check was received, the amount needed to reimburse the County for foster care costs was deducted from the check. Only the residual amount was recorded in the individual child's ledger card. Thus, the balance did not include the full amount of money received. In addition, DSS did not record the receipt of benefits or the payment of foster care in "pass-through" cases. DSS established "pass-through" cases for children it placed with a natural parent or relative and paid the benefit in its entirety to that person. Since the entire benefit was paid to the parent or relative, there appeared to be no effect on the balance of the child's funds and DSS did not record the transactions. However, Social Security benefits and foster care are paid at the beginning and end of the month, respectively. Thus, for calculating interest, the balance should have included the full benefit amount for almost an entire month.

In December 1997, DSS began using a computerized data base to replace the manual ledger cards. However, it copied the information from the children's ledger cards directly into the new data base. Since the ledger cards did not accurately reflect the children's fund balances, neither did the data base accurately reflect the balances.

Therefore, the children's balances and the amount of interest owed to them were understated. DSS should reenter the information using the actual dates the benefits were received and the foster care payments were made, and calculate the interest based on those dates. DSS officials told us that the information in the data base was being changed to reflect the actual dates.

Retroactive Reimbursement for Foster Care Costs

DSS did not obtain authorization from SSA before reimbursing itself for prior foster care costs from retroactive benefit payments. DSS officials stated that it was standard practice to reimburse itself when it received a check for retroactive benefits. They were unaware that SSA's policy required prior authorization.

Periodically, the County receives payments for retroactive benefits because of delays in processing benefit applications. For example, the processing of SSI applications typically requires several months. This delay results in retroactive benefits which SSA pays in a lump-sum together with the current benefits. During the delay, the County pays the foster care expenses for the children.

Upon receiving the retroactive payments, DSS reimburses the County for the foster care expenses previously incurred. The amount of reimbursement is determined from the award letter issued by SSA which specifies the months for which the benefits were issued. Benefits are first applied to the most current month's cost and then to each preceding month to the first month included in the letter (or until the entire payment is consumed, whichever occurs first).

Since the children's benefits will be used to reimburse the County, the County becomes a creditor to the child. To avoid a possible conflict of interest arising from the County being a creditor as well as Rep Payee, SSA procedures require that the County obtain SSA authorization before reimbursing itself.[3]

We noted that in November 1995, SSA, Region IX, had communicated the requirement to DSS in a draft report of its review of DSS' interim assistance reimbursement program. The objective of the review was to determine whether reimbursements for payments made on behalf of children in foster care were appropriate. In a draft report dated November 6, 1995, SSA informed DSS that, "The County was not following representative payee creditor procedures which require the County to determine the foster child's current and foreseeable needs and obtain SSA approval before reimbursing itself from the SSI retroactive check."

[3] POMS, Part 02, GN 00602.030B.

Accounting for Individual Children's Funds

DSS needs to improve its accounting for the children's funds. The ledger card kept for each child was the official and only record of the child's Social Security fund balance. As such, the card should contain a history of the transactions related to the child's benefits. However, the cards did not provide an accurate record of the benefits received, how they were used and the fund balance because of the way in which DSS accounted for the funds. In "pass-through" cases, DSS recorded neither the benefits nor the costs because it passed the entire amount of the benefits to the foster care provider. In other cases, DSS recorded the benefits net of foster care costs. Thus, the children's ledger cards did not show the amount of benefits received or costs incurred, making errors difficult to detect and correct.

"Pass-through" cases tended to understate the children's funds balances. In these cases, neither the benefit checks nor the foster care costs were recorded. Since benefit checks were received at the beginning of the month and expenditures were reimbursed at the end, for most of the month the County had the full amount of the checks on deposit. Likewise, the ledger cards should have included the full amount of the benefit checks in the fund balances.

Seven of the 19 cases we reviewed were "pass-through" cases. In those 7 cases, we noted 145 payments totaling $81,027.30. In one of the seven cases, DSS used the child's OASDI benefits to reimburse the County for $5,289.00 that was also reimbursed through shared Federal, State, and County funding. In another case, the "pass-through" funds resulted in an excess reimbursement to the County of $177.07 because the foster care payment was reduced for 1 month, but the reimbursement continued at the full amount. If DSS had been recording the receipts and expenditures as they occurred, these errors may have been avoided.

In another six cases, we noted excessive reimbursements for foster care costs that totaled $3,773.40. The excesses included charging the child twice for a single month's foster care costs, reimbursing the County for foster care costs that were not paid, and reimbursing the County for more than the amount paid for foster care. In each of these cases, the errors could have been avoided if receipts and disbursements had been entered in their entirety onto the ledger card. In one of the six cases, DSS entered two transactions that reduced the fund balance and subsequently reversed them, but was unable to provide an explanation for the transactions. In some cases, if the erroneous or unexplained transactions had not been made, the balance would have exceeded the resource threshold and SSI benefits for the next month should not have been paid.

The County needs to reconstruct the individual children's accounts beginning January 1994 in order to calculate interest earned on the funds. During that process, it should correct these and similar errors and determine whether there are any refunds due SSA.

CONCLUSIONS AND RECOMMENDATIONS

For the 19 cases, we found no evidence that children's funds had been used for any purpose other than for the care of the children. However, the County was not correctly calculating interest earned on the children's funds and, as Rep Payee, did not obtain the required authorization before reimbursing itself for prior foster care costs. In addition, improvements were needed to accurately account for the children's funds. Recent changes to the accounting system, if implemented as designed, should correct this problem.

We recommend that SSA direct the County to:

1. Reimburse the children for any interest earned on their funds, including that earned from the date a benefit was received to the date it was used to reimburse foster care costs.

2. Comply with the policy requirement for Rep Payees to obtain authorization from SSA before receiving retroactive reimbursement for foster care costs.

3. Refund to the appropriate children's accounts: (1) $5,289.00 in foster care costs that were reimbursed to the County from other sources, (2) $177.07 excessive reimbursement resulting from not recording the benefits in a "pass-through" case, and (3) $3,773.40 in other excessive reimbursements.

4. Refund to SSA any benefits that were paid after a child's fund balance exceeded the SSI eligibility threshold.

5. Ensure that children's accounts reflect the full amounts of benefits received and costs paid.

AGENCY COMMENTS

SSA concurred with our findings and recommendations. The full text of SSA's comments are included as Appendix A.

Pamela J. Gardiner

APPENDICES

APPENDIX A

SSA COMMENTS

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For additional copies of this report, please contact the Office of the Inspector General's Public Affairs Specialist at (410) 966-9135. Refer to Common Identification Number A-09-98-52009.

SSA ORGANIZATIONAL CHART