
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**CABINET FOR FAMILIES AND CHILDREN,
DEPARTMENT FOR COMMUNITY BASED
SERVICES, DIVISION OF PROTECTION AND
PERMANENCY – AN ORGANIZATIONAL
REPRESENTATIVE PAYEE FOR THE SOCIAL
SECURITY ADMINISTRATION**

March 2004

A-08-03-13084

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.

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- 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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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.



SOCIAL SECURITY

MEMORANDUM

Date: March 10, 2004

Refer To:

To: Paul D. Barnes
Regional Commissioner
Atlanta

From: Assistant Inspector General
for Audit

Subject: Cabinet for Families and Children, Department for Community Based Services, Division of Protection and Permanency - An Organizational Representative Payee for the Social Security Administration (A-08-03-13084)

OBJECTIVE

Our objectives were to determine whether the Cabinet for Families and Children, Department for Community Based Services, Division of Protection and Permanency, (CFC) (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 to receive and manage these beneficiaries'¹ benefit payments.² A representative payee may be an individual or an organization. SSA selects representative 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.

CFC, a State agency in Kentucky, serves as a court-appointed legal custodian for children. CFC services include adoption, foster care, and protective services to children and families with children. CFC's child beneficiaries generally live in foster care homes, group homes or institutions. CFC serves over 6,200 children and was the

¹ We use the term "beneficiary" generically in this report to refer to both OASDI beneficiaries and SSI recipients.

² 42 U.S.C. §§ 405(j), 1383(a)(2) (2003).

representative payee for 1,683 SSA beneficiaries from April 1, 2002 through March 31, 2003. During this period, SSA paid CFC approximately \$277,000 for our 100 sample beneficiaries. See Appendices B and C for a detailed discussion of the Background, Scope and Methodology of this report.

RESULTS OF REVIEW

CFC generally (1) had effective safeguards over the receipt and disbursement of Social Security benefits and (2) ensured Social Security benefit payments were used and accounted for in accordance with SSA's policies and procedures. However, we identified the following areas where CFC needs to improve its performance as a representative payee.

- CFC did not identify SSI beneficiaries who were receiving other Federal benefits, resulting in \$16,687 in overpayments.³
- CFC did not identify beneficiaries with excess SSI resources, resulting in \$3,417 in overpayments.⁴
- CFC did not timely report that a beneficiary had run away.
- Federal deposit insurance of beneficiary trust funds was at-risk because CFC's
 - general beneficiary funds were commingled with other State funds in Kentucky's General Depository account and
 - the dedicated account title did not identify the fiduciary relationship between CFC and the beneficiaries.

We also determined that information in SSA's Representative Payee System (RPS) was not always accurate or differed from Agency payment records.

³ This amount includes 4 overpayments (\$7,998) from our 100 sample beneficiaries and 2 overpayments (\$8,689) outside our sample. The \$7,998 represents less than 3 percent of the total benefits (\$277,000) SSA paid to our sample beneficiaries. We excluded the \$8,689 from this percentage because the 2 overpayments were outside our sample.

⁴ We identified 2 overpayments during our review of all SSI beneficiaries' conserved fund balances in our population of 1,683 children. A portion of these overpayments extended beyond our audit period.

CFC Did Not Identify Beneficiaries' Receipt of Other Federal Benefits

We found six instances in which CFC did not identify that beneficiaries were receiving Title IV-E income.⁵ As a result, these individuals received \$16,687 in SSI overpayments. SSA policy states that foster care payments made under Title IV-E are based on the need of the individuals in care. When beneficiaries receive Title IV-E income, SSA reduces SSI payments dollar for dollar.⁶

The \$16,687 in overpayments includes 4 overpayments (\$7,998) from our 100 sample beneficiaries and 2 overpayments (\$8,689) outside our sample.⁷ Because the items outside our sample came to our attention during this review, we included them in the total amount. In addition, a portion of these overpayments extended beyond our audit period. The following table provides details on the SSI overpayments.

SSI Case Number	Sample Beneficiary	SSI Overpayment Amount	Number of Months Overpaid
1	Yes	\$6,911	14
2	No	5,520	10
3	No	3,169	6
4	Yes	814	10
5	Yes	141	2
6	Yes	132	1
Total		\$16,687	

Note: SSA issued partial benefits to all beneficiaries except for SSI case number two.

CFC agreed with our overpayment findings and returned the \$16,687 to SSA. CFC stated that its new monthly management report, *Child Trust Fund Active Out of Home Care*, will assist in identifying SSI beneficiaries who receive Title IV-E income.

We believe CFC did not routinely identify all beneficiaries who were receiving Title IV-E income during our audit period, as evidenced by the cases we identified. If the 4 overpayments (\$7,998) in our 100 sample reflect CFC's beneficiary population of 1,683 children, we would expect to find that SSA overpaid beneficiaries about \$135,000 because of unreported Title IV-E income.⁸ We believe CFC would benefit by reviewing all SSI recipients' records to ensure it has identified and reported all Title IV-E income.

⁵ Title IV, Part E of the Social Security Act provides for Federal payments to the states for foster care maintenance and adoption assistance payments on behalf of certain eligible children. 42 U.S.C. § 670 et seq.

⁶ Program Operations Manual System (POMS), SI 00830.410 and SI 00830.170.

⁷ We discovered the 2 overpayments outside the 100 sample during our review of beneficiaries with excess SSI resources.

⁸ The two overpayments outside our sample were not used in this estimation.

CFC Did Not Identify Beneficiaries with Excess SSI Resources

CFC did not identify two beneficiaries who had conserved funds over the SSI resource limit. As a result, these individuals received \$3,417 in SSI overpayments.

SSA policy states that, beginning January 1, 1989, individuals with countable resources exceeding \$2,000 must use those excess resources to meet their needs before they receive SSI payments. SSA makes eligibility determinations based on resource amounts at the beginning of each month.⁹

CFC agreed with our finding and returned the overpayments to SSA. CFC stated that its *Child Trust Fund Active Out of Home Care* report will assist in identifying beneficiaries whose conserved funds may exceed the SSI resource limit.

CFC Did Not Timely Report That a Beneficiary Had Run Away

Regulations require that representative payees report any event that will affect the amount of payments beneficiaries receive or their right to receive such benefits.¹⁰ However, CFC did not report to SSA that a child had run away from his foster home because its field staff had not reported this situation to its central office.¹¹ CFC was unaware of this situation until we requested a meeting with the beneficiary. As a result, SSA suspended the beneficiary's OASDI benefits.

The Federal Deposit Insurance of Beneficiary Trust Funds Was At-Risk

The Federal deposit insurance of beneficiary trust funds was at-risk because CFC's (1) general beneficiary funds of approximately \$600,000 were commingled with other State funds in Kentucky's General Depository account, and (2) a dedicated account of about \$285,000 lacked a title identifying the fiduciary relationship between CFC and the beneficiaries.

SSA policy states that a representative payee may establish collective checking and savings accounts to hold monies belonging to several beneficiaries. However, to protect beneficiaries' funds in case of bank failure, each account must be separate from the agency's operating account, and the account title must show the funds belong to the beneficiaries and not the representative payee.¹² The account must be in a form that

⁹ POMS, SI 01110.001 and SI 01110.003.

¹⁰ 20 CFR §§ 404.2035(b) & 416.635(b).

¹¹ On July 14, 2003, the foster home notified CFC field staff that a child under its care had run away. CFC's central office notified SSA of the child's status on September 24, 2003.

¹² POMS, GN 00603.020.

clearly shows the representative payee has only fiduciary and not personal interest in the funds.¹³

CFC's general beneficiary funds¹⁴ were commingled with other State funds in Kentucky's *General Depository* account. We believe CFC needs to remove its general beneficiary funds from the State's *General Depository* account and establish a more specific title that expressly shows a custodian-ward relationship to guarantee its beneficiaries' deposits will be maximally insured by deposit insurance (see our suggested account title below).¹⁵ CFC's general beneficiary fund balance, as of September 2003, was over \$600,000 in Kentucky's *General Depository* account.

Also, CFC had not established a properly titled bank account for beneficiaries receiving dedicated SSI payments.¹⁶ The bank account title does not show the beneficiaries as owners of the account. To guarantee that the Federal Deposit Insurance Corporation (FDIC) insures each beneficiary's funds,¹⁷ CFC should modify the current title of its dedicated account (*Child Dedicated SSI Funds*) to a more specific title, such as *CFC Representative Payee Trust Fund of Dedicated Social Security Benefits for Current Wards of the State*. CFC's dedicated account balance, as of September 2003, was over \$285,000.

SSA acknowledged that Agency policy requires that beneficiary trust fund accounts be separate from the representative payee's operating accounts. SSA stated it is aware of Kentucky's practice of commingling beneficiary funds with other State funds and is taking steps to address this issue. SSA agreed that CFC should retitle its dedicated account to show the beneficiaries as account owners. We believe SSA should act expeditiously to ensure that beneficiaries' funds are adequately protected.

¹³ 20 CFR §§ 404.2045 & 416.645.

¹⁴ These funds are regular monthly OASDI and SSI benefits.

¹⁵ 12 CFR §330.5(b)(1).

¹⁶ CFC established a separate dedicated account for SSI beneficiaries who are disabled/blind, under age 18, and who have received certain past-due benefit payments made on or after August 23, 1996.

¹⁷ When a representative payee is acting for more than one ward relative to the maintenance of deposit accounts and the representative payee commingles the wards' benefits in custodian trust accounts, each ward, provided that certain conditions are satisfied, would be given insurance coverage up to \$100,000. See 12 C.F.R. § 330.7(a).

Representative Payee System Data Were Not Accurate or Differed from SSA Payment Records

The information in SSA's RPS was not always accurate or differed from the Agency's Master Beneficiary Record (MBR) or Supplemental Security Record (SSR).¹⁸ SSA has established the RPS, an on-line system for entering and retrieving information about representative payees and those applying to be representative payees.¹⁹ RPS includes general information about current and prior representative payees, the number of beneficiaries/recipients for whom the applicant has applied or been selected, misuse information, and a list of the beneficiaries/recipients in the representative payee's care.

To determine the beneficiaries in CFC's care, we compared its beneficiary records to SSA's beneficiary records. We found the following discrepancies in SSA records during our review.

- RPS listed CFC as the representative payee for 22 beneficiaries. However, SSA did not send any payments to CFC for these beneficiaries because the MBR/SSR address or bank data were for other representative payees. CFC should have received payments for 3 of the 22 beneficiaries.
- RPS did not list CFC as the representative payee for 40 of its beneficiaries.
- RPS listed CFC as the pending representative payee for 39 beneficiaries, although CFC was the active representative payee.

We identified two potential causes for RPS errors and discrepancies in SSA records. In some instances, SSA personnel can bypass RPS and post representative payee information to the payment record (MBR/SSR). In addition, SSA stated that a data link between the SSR and RPS failed from September through November 2002, which caused active payees to remain listed as pending in RPS. Inaccurate RPS information could cause SSA to use erroneous data in its oversight and evaluation of representative payees. We provided SSA the names of the affected beneficiaries so the Agency could correct its records.

¹⁸ The MBR is an SSA system of records containing information about OASDI beneficiaries. The SSR is an SSA system of records containing SSI recipient information.

¹⁹ See 42 U.S.C. § 405(j)(2) (2002).

CONCLUSION AND RECOMMENDATIONS

Generally, CFC met its representative payee responsibilities. However, CFC needs to strengthen its controls and procedures to reduce the potential for overpayments and loss of beneficiary funds. In addition, SSA needs to improve the accuracy of information contained in its RPS and payment records.

We recommend that SSA:

1. Direct CFC to review its SSI recipient records and inform SSA of any unreported Title IV-E income.
2. Re-emphasize to CFC the procedures for notifying SSA when events occur that affect the eligibility of individuals in its care.
3. Direct CFC to remove its general beneficiary funds from Kentucky's *General Depository* account and establish a specific title that expressly shows a custodian-ward relationship to guarantee its payees' deposits will be maximally insured by deposit insurance.
4. Direct CFC to modify its dedicated account title to specifically identify the fiduciary relationship between it and the beneficiaries.
5. Correct the RPS and/or Agency payment record information and implement controls or procedures to prevent future discrepancies.

AGENCY COMMENTS

Regarding Recommendation 1, SSA stated the Kentucky Area Director's Office will request a list of all SSI recipients who received Title IV-E income and will review each case to ensure that Title IV-E income was properly posted. SSA stated it will take corrective action as necessary.

SSA agreed with Recommendation 2 and stated that its parallel District Office will host a meeting with CFC to discuss the importance of promptly reporting events that affect individuals' eligibility and payment.

Regarding Recommendation 3, SSA stated its Central Office is aware of Kentucky's fiscal policy. SSA stated that Kentucky established a master account with sub accounts for each State agency (including CFC) and maintains details for each beneficiary. SSA is exploring whether this arrangement is in compliance with Agency policy. SSA stated that once a final determination is made, it will notify CFC. In addition, SSA stated it is consulting with its Regional Office of General Counsel for clarification of FDIC rules to determine whether each beneficiary is appropriately insured.

Regarding Recommendation 4, SSA stated that its Kentucky District Office will discuss the possibility of CFC implementing the dedicated account title modification. Again, as SSA stated in its response to Recommendation 3 above, this issue may not be resolved until its Central Office makes a determination whether Kentucky's fiscal policy arrangement is in compliance with Agency policy.

SSA agreed with Recommendation 5 and stated it has taken action to correct the RPS and/or Agency payment record for the cases identified during this audit. Additionally, SSA plans to issue a reminder to all SSA employees in Kentucky regarding proper procedures for posting representative payee information to the payment record.

The full text of SSA's comments is included in Appendix D.

REPRESENTATIVE PAYEE COMMENTS

Regarding Recommendation 1, CFC stated, effective November 1, 2002, it directed staff to change reporting practices of Title IV-E. CFC plans to review all children for whom it was the representative payee during the audit period and all new applicants for benefits. CFC stated it will return to the appropriate benefit agency any SSI or Title IV-E overpayments identified.

Regarding Recommendation 2, CFC stated it has issued a policy memorandum to reinforce the Division's Standard of Practice which requires staff to immediately report events that affects an individual's eligibility. CFC also stated this issue will be a topic of discussion at the next meeting with the Service Region Administrators, who oversee field staff.

Regarding Recommendation 3, CFC stated that it believes 12 CFR 330.5(b) and 12 CFR 330.1(e) affords alternative means of appropriate labeling of the funds, such as identification through account ledgers, signature cards, or records maintained by computer which relate to the insured depository institution's deposit taking function. Therefore, CFC believes it is in compliance with Recommendation 3.

Regarding Recommendation 4, CFC stated that it has two bank accounts set up for the Child Dedicated Trust Fund. One account is for receipts and disbursements and the other account is for the interest earned on the dedicated account.

The full text of the Representative Payee's comments is included in Appendix E.

OIG RESPONSE

We believe SSA's and the Representative Payee's responses and planned actions adequately address Recommendations 1, 2, and 5.

Regarding SSA's and the Representative Payee's responses to Recommendations 3 and 4, we acknowledge and appreciate SSA's commitment to determining whether Kentucky's fiscal policy is in compliance with the Agency's policy. We urge SSA to work closely with the Representative Payee and the FDIC to resolve whether the practice followed by the Representative Payee is in compliance with SSA and FDIC policy.



Steven L. Schaeffer

OTHER MATTER

SSA's Retrieval of Representative Payee Reports

One method SSA uses to monitor representative payees is the Representative Payee Report (RPR). The RPR assists SSA in determining the (1) use of benefits during the preceding 12-month reporting period, (2) representative payee's continuing suitability, and (3) continuing need for representative payment.²⁰ Depending on the representative payee's responses, SSA may contact the representative payee to determine its continued suitability. We found that SSA could not always retrieve CFC-completed RPRs.

To determine whether CFC properly reported to SSA how benefits were used, we requested that SSA provide the most recently completed RPRs for 100 of CFC's beneficiaries. SSA only provided seven of the requested RPRs. We believe CFC may not have been the representative payee long enough for SSA to provide an RPR for 14 beneficiaries. For the remaining 79 beneficiaries, SSA could not provide RPRs.

²⁰ See POMS, GN 00605.001.

Appendices

APPENDIX A – Acronyms

APPENDIX B – Background

APPENDIX C – Scope and Methodology

APPENDIX D – Agency Comments

APPENDIX E – Representative Payee Comments

APPENDIX F – OIG Contacts and Staff Acknowledgments

Acronyms

CFC	Cabinet for Families and Children, Department for Community Based Services, Division of Protection and Permanency
CFR	Code of Federal Regulations
FDIC	Federal Deposit Insurance Corporation
MBR	Master Beneficiary Record
OASDI	Old-Age, Survivors and Disability Insurance
POMS	Program Operations Manual System
RPR	Representative Payee Report
RPS	Representative Payee System
SSA	Social Security Administration
SSI	Supplemental Security Income
SSR	Supplemental Security Record
USC	United States Code

Background

Some individuals cannot manage or direct the management of their finances because of their youth or mental and/or physical impairments. Congress granted the Social Security Administration (SSA) the authority to appoint representative payees to receive and manage these beneficiaries'¹ benefit payments.² A representative payee may be an individual or an organization. SSA selects representative 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.

Representative payees are responsible for using benefits to serve the best interests of the beneficiary or recipient. Their duties include

- 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 beneficiary's entitlement or benefit payment amount,
- reporting any changes in circumstances that would affect their performance as a representative payee, and
- providing SSA an annual Representative Payee Report accounting for how benefits were spent and invested.³

¹ We use the term "beneficiary" generically in this report to refer to both OASDI beneficiaries and SSI recipients.

² 42 U.S.C. §§ 405(j), 1383(a)(2).

³ See *id.*; 20 Code of Federal Regulations (C.F.R.) §§ 404.2001 et seq. & Part 416.501 et seq.

Scope and Methodology

Our audit covered the period April 1, 2002 through March 31, 2003.

To accomplish our objectives, we:

- Reviewed the Social Security Act and the Social Security Administration's (SSA) policies and procedures pertaining to representative payees.
- Contacted SSA regional office and field office staff to obtain background information about the Cabinet for Families and Children, Department for Community Based Services, Division of Protection and Permanency's (CFC) performance as a representative payee.
- Obtained from SSA's Representative Payee System (RPS) a list of individuals who were in CFC's care between April 1, 2002 and March 31, 2003.
- Obtained from CFC a list of individuals who were in its care between April 1, 2002 and March 31, 2003.
- Compared and reconciled the RPS and the CFC list to identify the population of SSA individuals who were in CFC's care from April 1, 2002 through March 31, 2003.
- Reviewed and tested CFC's internal controls over the receipt and disbursement of SSA benefit payments.
- Reviewed all SSI beneficiary account balances to determine whether conserved funds exceeded the \$2,000 resource limit.
- Performed the following tests for our 100 sample beneficiaries.
 - Compared and reconciled benefit amounts paid according to CFC records to benefit amounts paid according to SSA's payment records.
 - Reviewed CFC accounting records to determine whether benefits were properly spent or conserved on the individual's behalf.
- Traced 1 sample expense, for 25 beneficiaries, to source documents and examined the underlying documentation for reasonableness and authenticity.
- Interviewed 10 beneficiaries, personal guardians, or caregivers to determine whether beneficiaries' basic needs were being met.

- Reviewed seven Representative Payee Reports to determine whether CFC properly reported to SSA how benefits were used.
- Reviewed 10 representative payee applications (Form SSA-11-BK) to evaluate the completeness and appropriateness of the information provided on the applications.

We determined CFC's computer-processed data to be sufficiently reliable for our intended use. Further, any data limitations are minor in the context of this assignment, and the use of the data should not lead to an incorrect or unintentional message. We tested benefit payment receipts and disbursements recorded in CFC's accounting system. We conducted tests to determine the completeness, accuracy and validity of the data. These tests allowed us to assess the reliability of the data and achieve our audit objectives. We performed our audit in Frankfort, Kentucky, and Birmingham, Alabama, from April to November 2003. We conducted our audit in accordance with generally accepted government auditing standards.

Agency Comments

MEMORANDUM

Date: February 20, 2004

To: Assistant Inspector General
Office of Audit
Attn: Steven L. Schaeffer

From: Regional Commissioner
Atlanta

Subject: Cabinet for Families and Children (CFC), Department for Community Based Services, Division of Protection and Permanency - An Organizational Representative Payee for the Social Security Administration (A-08-03-13084)

Thank you for the opportunity to review the findings of your recent audit. We offer the following comments:

Recommendation # 1 - Direct CFC to review its SSI recipient records and inform SSA of any unreported Title IV-E income.

Comments: We concur with this proposal. A written statement will be released from the Kentucky Area Director's Office requesting a list of all SSI recipients that receive Title IV-E income. A review of each case will be made to ensure Title IV-E income is properly posted. Corrective action will be taken on each case as necessary.

Recommendation # 2 - Re-emphasize to CFC the procedures for notifying SSA when events occur that affect the eligibility of individuals in its care.

Comments: The parallel District Office will host a meeting with CFC to discuss the importance of timely reporting of events that affect eligibility and payment of individuals. Also, a new computer system has been implemented allowing local social workers to make direct input into the system regarding changes. This is a state wide system and will require some time to fully train all employees. We expect significant improvement in timely reporting once the system is fully operational.

Recommendation # 3 - Direct CFC to remove its general beneficiary funds from Kentucky's General Depository account and establish a specific title that expressly shows a custodian-ward relationship to guarantee its payees' deposits will be maximally insured by deposit insurance.

Comments: Kentucky's fiscal policy is established as a master account with sub accounts for each agency. They maintain details for each beneficiary, including exact amount used and held for each individual. In the past, the State has been adamant that

this policy cannot be changed. However, Central Office is aware of this issue and is exploring whether this arrangement is in compliance with SSA policy (GN 02402.050.B.2). Once a final determination is made, notification will be provided to the payee. In addition, we are consulting with our Regional Office of General Counsel for clarification of FDIC rules (12 C.F.R. 330.5 and 12 C.F.R. 330.15) to determine whether the Kentucky accounting system is considered a "public unit account", and whether each beneficiary is insured up to the standard \$100,000.

Recommendation #4 - Direct CFC to modify its dedicated account title to specifically identify the fiduciary relationship between it and the beneficiaries.

Comments: The local parallel District Office will discuss the possibility of CFC implementing the dedicated account title modification. Again, this issue may not be resolved until a CO determination is made per #3 above.

Recommendation #5 - Correct RPS and/or Agency payment record information and implement controls or procedures to prevent future discrepancies.

Comments: Action has been taken to correct the RPS and/or Agency payment record for the cases identified in the review. A reminder will be issued to all Kentucky SSA employees regarding the proper procedures for posting representative payee information to the payment record.

Please let me know if you have further questions, or your staff may contact Barbara Luke at 404-562-1322.

/s/
Paul D. Barnes

Representative Payee Comments



ERNIE FLETCHER
GOVERNOR

**Cabinet For Health and Family
Services**

JAMES W. HOLSINGER, JR., M.D.
SECRETARY

OFFICE OF THE SECRETARY
275 EAST MAIN STREET, 5W-A
FRANKFORT, KENTUCKY 40621-0001
(502) 564-7042 (502) 564-7091 FAX
WWW.KENTUCKY.GOV

February 19, 2004

Mr. Paul D. Barnes
Regional Commissioner
Regional Public Affairs Office
Social Security Administration
61 Forsyth St. SW Suite 23T29
Atlanta, Georgia 30303-8907

Dear Mr. Barnes:

The Cabinet for Health and Family Services has reviewed the draft report, "Cabinet for Families and Children, Department for Community Based Services, Division of Protection and Permanency – An Organizational Representative Payee for the Social Security Administration (A-08-03-13084)". Thank you for the opportunity to present our views relative to the validity of the facts presented in the audit report. For clarification, since the conclusion of the audit, the Cabinet for Families and Children and the Cabinet for Health Services merged, and renamed the Cabinet for Health and Family Services.

I am pleased that the results of the review found that the Cabinet generally had effective safeguards over the receipt and disbursement of Social Security benefits and ensured Social Security benefit payments were used and accounted for in accordance with the Social Security Administration's (SSA) policies and procedures. In regard to the audit report recommendations to strengthen controls and procedures to reduce the potential for overpayments and loss of beneficiary funds (page 6 of the draft audit report), I have the following comments:

- **Recommendation:** Direct CFC to review its SSI recipient records and inform SSA of any unreported Title IV-E income.

Comment: Effective November 1, 2002, the Cabinet directed staff to change reporting practices of Title IV-E. Since that time, there should have been no new SSI applications for children resulting in concurrent Title IV-E and Supplemental Security Income (SSI) benefits. However, the Department for Community Based Services (DCBS) will review all children for whom the Cabinet was representative payee

during the audit period of April 1, 2002 through March 31, 2003. Further, DCBS will systematically review all new applicants for benefits. Any overpayment of SSI or Title IV-E identified will be returned to the appropriate benefit agency.

- **Recommendation:** Re-emphasize to CFC the procedures for notifying SSA when events occur that affects the eligibility of individuals in its care.

Comment: The Division of Protection and Permanency has issued a policy memorandum to reinforce the directive and procedures contained in the Division's Standard of Practice that requires staff to immediately report such events that affect an individual's eligibility (enclosed). Further, this issue will be a topic of discussion at the next meeting with the Service Region Administrators, who oversee DCBS field staff.

- **Recommendation:** Direct CFC to remove its general beneficiary funds from Kentucky's General Depository account and establish a specific title that expressly shows a custodian-ward relationship to guarantee its payees' deposits will be maximally insured by deposit insurance.

Comment: Kentucky State Government has a general depository account with the Farmer's Bank for revenues to the Commonwealth. The Children's regular deposits from the Social Security Administration are deposited into that account, then sub-accounted into an Off-Budget Restricted account. The funds in this sub-account are protected from the regular budget disbursement across state government. Enclosed is a record of all Off-Budget accounts under the purview of Families and Children. The Z050 account is the Children's Regular account and is restricted for the use of the child beneficiaries' daily care and support while in the custody of, or committed to, the state.

The Treasurer's General Depository Account is the account through which almost all transactions are conducted. To set up new central level accounts requires:

- (1) A reprogramming of the MARS accounting structure;
- (2) Changes to the TWIST system that houses the Trust Fund Individual Ledger computer program; and
- (3) An amendment to the state's banking services contract with Farmers Bank.

The Cabinet can only expand the number of central level bank accounts if specifically required to do so by federal statute or regulation. Upon review of 12 CFR 330.5(b) and 12 CFR 330.1(e), we believe that the regulation affords alternative means of appropriate labeling of these funds, such as identification through account ledgers, signature cards, or records maintained by computer which relate to the insured depository institution's deposit taking function. Therefore, we believe that the Cabinet is in compliance with the recommendation of the draft audit report.

- **Recommendation:** Direct CFC to modify its dedicated account title to specifically identify the fiduciary relationship between it and the beneficiaries.

Comment: Research has clarified some additional information on the dedicated account. There are currently two accounts set up for the Child Dedicated Trust Fund. The basic account is the transaction account for all receipts and disbursements. For accounting purposes, there also exist an interest account. This allows Farmers Bank to segregate the interest earned on the Child Dedicated Trust Fund account. We apologize for not having this information during the review.

The Cabinet for Health and Family Services is committed to ensuring that all of our programs fully comply with the applicable federal laws and regulations. If you have questions about the above comments, please contact Mike Robinson, Commissioner of the Department for Community Based Services, at (502) 564-7130.

Sincerely,

Dr. James W. Holsinger
Secretary

cc: Mr. Steven L. Schaeffer, Assistant Inspector General for Audit

Enclosures

OIG Contacts and Staff Acknowledgments

OIG Contacts

Kim Byrd, Director, (205) 801-1605

Jeff Pounds, Audit Manager, (205) 801-1606

Acknowledgments

In addition to the persons named above:

Walter Bayer, Director

Theresa Roberts, Auditor-in-Charge

Kenley Coward, Program Analyst

Kimberly Beauchamp, Writer-Editor

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Majority and Minority Staff Director, Subcommittee on Social Security
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Chairman and Ranking Minority Member, Committee on Budget, House of Representatives
Chairman and Ranking Minority Member, Committee on Government Reform and Oversight
Chairman and Ranking Minority Member, Committee on Governmental Affairs
Chairman and Ranking Minority Member, Committee on Appropriations, House of Representatives
Chairman and Ranking Minority, Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Committee on Appropriations, House of Representatives
Chairman and Ranking Minority Member, Committee on Appropriations, U.S. Senate
Chairman and Ranking Minority Member, Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Committee on Appropriations, U.S. Senate
Chairman and Ranking Minority Member, Committee on Finance
Chairman and Ranking Minority Member, Subcommittee on Social Security and Family Policy
Chairman and Ranking Minority Member, Senate Special Committee on Aging
Social Security Advisory Board
Dr. James W. Holsinger, Secretary of the Cabinet for Health and Family Services

Overview of the Office of the Inspector General

Office of Audit

The Office of Audit (OA) conducts comprehensive financial and performance audits of the Social Security Administration's (SSA) programs and makes recommendations to ensure that program objectives are achieved effectively and efficiently. Financial audits, required by the Chief Financial Officers' Act of 1990, assess whether SSA's financial statements fairly present the Agency's financial position, results of operations and cash flow. Performance audits review the economy, efficiency and effectiveness of SSA's programs. OA also conducts short-term management and program evaluations focused on issues of concern to SSA, Congress and the general public. Evaluations often focus on identifying and recommending ways to prevent and minimize program fraud and inefficiency, rather than detecting problems after they occur.

Office of Executive Operations

The Office of Executive Operations (OEO) supports the Office of the Inspector General (OIG) by providing information resource management; systems security; and the coordination of budget, procurement, telecommunications, facilities and equipment, and human resources. In addition, this office is the focal point for the OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act. OEO is also responsible for performing internal reviews to ensure that OIG offices nationwide hold themselves to the same rigorous standards that we expect from the Agency, as well as conducting employee investigations within OIG. Finally, OEO administers OIG's public affairs, media, and interagency activities and also communicates OIG's planned and current activities and their results to the Commissioner and Congress.

Office of Investigations

The Office of Investigations (OI) conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement of SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, physicians, interpreters, representative payees, third parties, and by SSA employees in the performance of their duties. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Counsel to the Inspector General

The Counsel to the Inspector General provides legal advice and counsel to the Inspector General on various matters, including: 1) statutes, regulations, legislation, and policy directives governing the administration of SSA's programs; 2) investigative procedures and techniques; and 3) legal implications and conclusions to be drawn from audit and investigative material produced by the OIG. The Counsel's office also administers the civil monetary penalty program.