



## SOCIAL SECURITY

Inspector General

August 12, 2002

Mr. Hal Daub  
Chairman  
Social Security Advisory Board  
400 Virginia Avenue, SW  
Washington, D.C. 20024

Dear Mr. Daub:

At our meeting of May 17, 2002, you asked that we prepare an issue paper on the potential use of "stored value cards" (SVC) in the Social Security Administration's (SSA) Representative Payment Program. Also in your July 25, 2002 testimony before Congress, you expressed concern about SSA making benefit payments to third parties. Specifically, you conveyed the concern that such payments are susceptible to abusive practices if the Agency does not carefully select and monitor representative payees. Furthermore, you noted the Agency would need to devote considerably more resources to screening and monitoring representative payees, if vulnerable beneficiaries are to be protected from misuse of benefits.

We agree that adequate oversight of representative payees is needed. In doing so, SSA should take advantage of existing technology in such efforts. Our August 2002 report, *Summary of Financial Related Audits of Representative Payees for the Social Security Administration* (enclosed), recommended that SSA pilot the use of SVC or similar technology for representative payees. SSA disagrees with our recommendation, stating the use of SVCs would be time-consuming and labor-intensive for both large payee organizations and individuals serving multiple beneficiaries and for representative payees serving only a small number of beneficiaries. However, we continue to believe SSA should use SVCs or similar technology for representative payees.

Our August 2002 Issue Paper, *Pilot Strategy for the Use of Stored Value Cards in the Social Security Administration's Representative Payment Program*, is also enclosed. It provides background information on SVCs, their use in other agencies, potential benefits, and an overall strategy that could be used in developing a pilot for SSA's use of SVCs in its Representative Payment Program. The purpose of performing the pilot would be to determine the feasibility, any limitations, necessary modifications, costs, benefits, legal implications, etc., of SVCs. Given the problems our audits and investigations continue to identify, as well as SSA's inability to retrieve over 50 percent

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of Representative Payee Reports, we continue to believe SSA should pilot this technology to effectively evaluate SVC's usefulness in helping to address long-term and systemic weaknesses in SSA's Representative Payment Program.

Thank you for your interest in SSA's Representative Payment Program. If you have any questions concerning this matter, please call me or have your staff contact Steven L. Schaeffer, Assistant Inspector General for Audit, at (410) 965-9700.

Sincerely,

A handwritten signature in blue ink, appearing to read "James G. Huse, Jr.", written in a cursive style.

James G. Huse, Jr.

Enclosures (2)

cc:  
Jo Anne B. Barnhart, Commissioner

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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**PILOT STRATEGY FOR THE USE OF  
STORED VALUE CARDS IN THE  
SOCIAL SECURITY ADMINISTRATION'S  
REPRESENTATIVE PAYMENT PROGRAM**

**August 2002**

**A-13-02-22096**

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**ISSUE  
PAPER**

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## Representative Payment Program

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 (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' 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 Rep Payee; and
- providing SSA an annual Representative Payee Report (RPR) accounting for how benefits were spent and invested.

As of November 2001, there were about 5 million Rep Payees who managed the benefits of about 7 million beneficiaries. The following chart reflects the types of Rep Payees and the number of individuals they served.

Type of Rep Payee	Number of Rep Payees	Number of Individuals Served
<i>Individual Payees: Parents, Spouses, Adult Children, Relatives, and Others</i>	4,949,000	6,160,000
<i>Organizational Payees: State Institutions, Local Governments and Others</i>	44,150	759,000
<i>Organizational Payees: Fee-for-Service</i>	850	81,000
<b>TOTAL</b>	<b>4,994,000</b>	<b>7,000,000</b>

## Stored Value Cards and/or Similar Technology

Stored value cards (SVC) are prepaid spending cards that can be used where most credit cards are accepted. Spending is limited to the amount of money transferred to the card. The SVC looks similar to a credit card in that both have the credit card mark and hologram. Merchants process SVCs and credit card authorizations in the same manner. Also, SVCs can be used to make automated teller machine withdraws.

One of the key elements in the President's Management and Performance Plan is "electronic government" (e-Government). The Office of Management and Budget established a task force to implement the President's initiative and requested agencies to identify areas where e-Government would be beneficial. We believe the use of SVCs or similar technology is an e-Government opportunity that SSA should consider for its Representative Payment Program. Below, we discuss three current uses of SVCs or similar technologies.

*U.S. Military* - The Army, Marines, and Air Force use SVCs to deliver payroll payments to trainees. As of June 2002, the Department of the Treasury's Financial Management Service web site reported these payments involved over 100,000 cards worth over \$50 million in transactions. The use of SVCs has reduced operating costs by 19 percent. In addition, the SVCs saved time by eliminating the need to cash checks, money orders, and credit vouchers.

*Social Security Administration* - SSA is using a technology similar to the SVC. SSA participates in the Electronic Benefits Transfer (EBT) Program<sup>1</sup> sponsored by the Department of the Treasury. About 50,000 beneficiaries/recipients are voluntarily participating in this Program. The EBT Program has reduced administrative costs by eliminating costs associated with printing and mailing benefit checks.

*U.S. Department of Agriculture* - The U.S. Department of Agriculture (USDA) issues over 80 percent of its food stamp benefits using EBT. EBT creates an electronic record of each food stamp transaction, making it less troublesome to identify and document instances where food stamps are "trafficked," or exchanged for cash, drugs or other illegal goods. The use of EBT has made it easier for USDA to detect large-scale trafficking, which is a type of program fraud. In March 2000, USDA reported a 19 percent decline in food stamp trafficking due in part to EBT.

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<sup>1</sup> The EBT Program, known as the Benefit Security Card (BSC), is part of a Governmentwide effort to improve services to beneficiaries who do not have an account at a financial institution. Beneficiaries using the BSC to access their benefits through automated teller machines and point-of-sale terminals.

## Known Problems with SSA's Representative Payee Program

- SSA does not effectively track Rep Payees who do not respond to, and complete, RPRs.
- Rep Payees do not always maintain accurate records of benefit receipts and disbursements.
- Rep Payees sometimes commingle beneficiary funds with business or personal funds.
- Rep Payees do not always properly control cash disbursements.
- Rep Payees do not always return conserved funds when beneficiaries die or there is a change of Rep Payee.
- SSA cannot always locate and retrieve completed RPRs when needed.

## Potential Benefits of SVCs to SSA's Representative Payee Program

The use of SVCs would facilitate improved monitoring of Rep Payees spending of and accounting for benefit payments. Some of the specific benefits of SVCs are discussed below.

Rep Payee Tracking of Expenses -The SVC would automatically keep an electronic record of most purchases for the Rep Payee.

Timely Identification of Rep Payee Spending - SSA could obtain spending information directly from the financial institution on the type and amount of many of the expenses the Rep Payee incurred. This information could be available electronically and be reviewed at various intervals (weekly, monthly, and annually).

Identification of Questionable Expenses - Create exception reports allowing SSA to quickly identify instances of questionable expenses, unusual spending patterns, and program ineligibility through excess conserved funds (see "Identification of Conserved Funds"). Merchant blocking could be used to prevent Rep Payees from making purchases with certain vendors.

Identification of Conserved Funds - Tracking balances on SVCs will permit SSA to quickly identify Supplemental Security Income program ineligibility when recipients' balances go over \$2,000. Also, when individuals change Rep Payees, the balance could be electronically transferred to the new Rep Payee. SSA would not have to wait for the former Rep Payee to return any balance(s) to SSA.

Elimination of the Paper RPR - Use of the SVC may provide significant administrative savings of costs for mailing and processing RPRs. Approximately

7 million paper RPRs are mailed and processed annually at a cost of about \$52 million. In addition, Rep Payees would no longer need to complete the “paper” annual report, thereby reducing the administrative burden on the Rep Payee.

## **Pilot Strategy**

SSA should consider implementing an initiative to determine the feasibility, including costs and benefits, of using the SVC or similar technology to monitor Rep Payees’ spending and accounting of benefit payments. Whether such technology has limited or widespread potential use within SSA’s Representative Payment Program should also be determined.

Before implementing the initiative, SSA should develop a strategy for determining whether the initiative’s objective(s) was achieved. We encourage SSA to take this proactive approach.

We suggest that the initiative take the form of three different pilot programs concurrently conducted in different regions. Furthermore, each pilot should focus on a different type of and/or location for Rep Payees. By doing so, SSA can include the steps it deems appropriate in the pilot to facilitate the reporting and evaluation of SVC program performance. SSA should consider obtaining performance measurement information from participating Rep Payees to assist it in assessing program performance.

Since SSA classifies most Rep Payees as “individual” Rep Payees, two of the three pilots should focus on this type of Rep Payee. One pilot could focus on individual Rep Payees in urban areas, while the other pilot could focus on individual Rep Payees that reside in suburban and rural areas. We suggest that SSA consider conducting these pilots in the Atlanta, Chicago, or San Francisco regions because of the significant number of beneficiaries and recipients in those regions.

The third pilot program centers on organizational Rep Payees, including fee-for-service and non-fee-for-service, governmental and non-governmental, and high-volume<sup>2</sup> individual Rep Payees. High-volume individual Rep Payees may face many challenges similar to those experienced by organizational Rep Payees. SSA should consider conducting its third pilot program in the Chicago, New York, or Philadelphia regions.

SSA should identify and document the roles and responsibilities of internal and external entities needed to implement its pilot programs as well as the underlying costs of each. The Agency should determine which of its components will be involved in managing and operating the initiative. In addition, SSA may need to create and maintain certain intergovernmental relationships to facilitate the implementation of effective and efficient pilot programs. For example, the Department of the Treasury could provide information and assistance regarding the use of the SVC or similar technology.

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<sup>2</sup> Serving 20 or more beneficiaries.

Also, SSA is faced with developing partnerships/contractual arrangements with financial institutions to address known challenges to using SVC or similar technology by Rep Payees. For example, financial institutions involved in the pilots will need to offer a check-writing option for use when the SVC cannot be used to make purchases on the beneficiary's behalf. Financial institutions will also need to provide Rep Payees use of automated teller machines for cash withdraws. In addition, SSA would need to work with one or several financial institutions to minimize costs of the pilot programs and estimate future costs.

## **Matters for Consideration During the Pilot**

### General Matters

- SSA or Congress may need to provide incentives for Rep Payees to use SVCs.
- SSA must determine whether to use a single SVC or multiple SVCs where a Rep Payee manages benefit payments for numerous beneficiaries.
- SSA should address the use of automated reports to fulfill the legislative requirement.
- The SVC will need a check-writing or other expenditure option for instances where SVCs are not accepted.
- SSA may need to include a consent provision from the Rep Payee authorizing examination of the financial institution records.
- Appropriate clause should be used in applicable Representative Payment Program documentation requiring the Rep Payee to certify that all funds are used for the beneficiary's benefit.
- Controls will need to be established for the SVC process to limit use to authorized individuals.

### Operational Matters

- Develop a strategy for addressing:
  - ✓ Costs associated with mailing original cards, replacing lost cards, automated teller machine withdrawals, etc.
  - ✓ Fraudulent use of lost cards.
  - ✓ Cards for Rep Payees with numerous beneficiaries.
  - ✓ Check-writing options.
  - ✓ Merchant blocking for Rep Payees.



- ✓ Development of an SVC “Rep Payee Report.”
- ✓ Development of exception reports to identify questionable expenses and track SVC balances.
- Issue a “Request for Quote” for providing SSA SVC/EBT or similar services. Evaluate and select proposals.
- Develop an information pamphlet about SVCs and request Rep Payee participation.
- Identify Rep Payees to participate and enroll them with the financial institution.
- Provide the selected Rep Payees training and education about SVCs.
- Develop a Rep Payee satisfaction questionnaire on using the SVC.

### Costs

- Work with financial institutions to minimize the types of administrative costs to be borne by SSA.
- Evaluation of the pilot should include a determination of the costs and benefits associated with implementing SVCs agencywide with the goal of having a positive return on investment.

### Assumptions

- Rep Payee participation in pilot programs would be voluntary. However, if the pilot is successful, SSA may want to make use of the SVC mandatory.
- Pilot program would be conducted for 1 year, and participants in the pilot would continue until a final decision is made on implementing the use of SVCs.