
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**CREATIVE ALTERNATIVES -
AN ORGANIZATIONAL REPRESENTATIVE
PAYEE FOR THE
SOCIAL SECURITY ADMINISTRATION**

June 2004

A-15-04-14033

AUDIT REPORT



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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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The Inspector General Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:

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- Promote economy, effectiveness, and efficiency within the agency.**
- Prevent and detect fraud, waste, and abuse in agency programs and operations.**
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.**
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SOCIAL SECURITY

MEMORANDUM

Date: June 25, 2004

Refer To:

To: Laurie Watkins
Regional Commissioner
Philadelphia

From: Assistant Inspector General
for Audit

Subject: Creative Alternatives - An Organizational Representative Payee for the Social Security Administration (A-15-04-14033)

OBJECTIVE

Our objectives were to determine whether Creative Alternatives (CA) (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 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.

CA is a nonprofit organization funded by a grant from the State of Maryland Department of Health and Mental Hygiene and Baltimore Mental Health Systems. CA is part of the Johns Hopkins Bayview Medical Center Community Psychiatry Program. CA assists adults who have serious and persistent mental illnesses. CA's program combines mental health treatment, rehabilitative services and assistance with daily living. From July 1, 2002 through June 30, 2003, SSA paid CA \$674,066 as the representative payee for approximately 100 SSA beneficiaries. Once CA is selected as the representative payee for a beneficiary, it assists clients to develop a budget for food,

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) (2002).

shelter, and clothing. The Entitlement Coordinator establishes and monitors each client's personal account. Most of the client's expenses are subsidized through CA's grant program.

SSA mails beneficiary checks directly to CA. Once the checks are received, they are stamped for deposit, recorded on the deposit ticket and photocopied. The check amounts are recorded in each beneficiary's financial record. The beneficiary checks are sent to the Bayview Medical Center to be deposited in the bank. Because CA is part of Bayview Medical Center, it does not have its own bank account. As a result, SSA beneficiaries' benefit money is co-mingled with other Bayview Medical Center monies.

RESULTS OF REVIEW

Our audit showed that CA 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 areas where CA could improve its performance as a representative payee.

We also identified an area where SSA needs to improve the accuracy of information contained in its Representative Payee System (RPS). We found CA was the representative payee for two beneficiaries who were listed as terminated in RPS.

Interest Earned Was Not Allocated to 13 Beneficiaries

Federal regulations state that any benefits that are not needed for the beneficiary's current use must be conserved or invested.³ After a representative payee has used benefit payments, any remaining amount shall be conserved or invested on the beneficiary's behalf.⁴ Conserved funds should be invested in accordance with the rules followed by trustees.⁵ Any investment must show clearly that the representative payee holds the property in trust for the beneficiary.⁶ Preferred investments for conserved funds are U.S. savings bonds and deposits in an interest- or dividend-paying account in a bank, credit union, or savings and loan association that is insured under either Federal or State law.⁷

We found there was \$22,244 in conserved funds for 13 SSA beneficiaries for whom CA had not allocated interest to their accounts. We brought this to CA's attention, and CA agreed to begin to allocate interest to those beneficiaries on a quarterly basis.

³ 20 C.F.R. §§ 404.2040 and 404.2045 (2002).

⁴ 20 C.F.R. §§ 404.2045 and 416.645 (2002).

⁵ See *id.*

⁶ See *id.*

⁷ 20 C.F.R. §§ 404.2045(b) and 416.645(b) (2002).

Separate Bank Account Was Not Established

SSA policy states that a representative payee may establish collective checking and savings accounts to hold monies belonging to several beneficiaries.⁸ However, a beneficiary's funds should not be mixed with the representative payee's funds.⁹ To protect a beneficiary's funds, the account title must show the funds belong to the beneficiary and not the representative payee.¹⁰

We found that CA had not established a separate bank account for the beneficiaries in its care. From July 1, 2002 to July 30, 2003, CA received \$674,066 as the representative payee for SSA beneficiaries. Beneficiary funds were deposited into the Johns Hopkins Bayview Medical Center, Incorporated, Concentration Account. However, the account was not properly titled to show the funds belonged to the beneficiaries. A properly titled account is important because, if the representative payee has financial problems and/or bankruptcy occurs, beneficiary funds may not be protected. CA should establish an account for the SSA benefit payments it receives on behalf of its clients. To guarantee the Federal Deposit Insurance Corporation¹¹ insures each beneficiary's account, the account should be properly titled to show the beneficiaries are the owners and any interest earned belongs to them.

Direct Deposit Was Not Used

Federal regulations generally require that all Federal payments be made by electronic funds transfer (direct deposit).¹² Direct deposit is a secure way of receiving payments and protects beneficiaries from the loss, theft, or delays associated with mailing paper checks. For a representative payee, direct deposit is an effective and efficient process that saves the time and effort of handling numerous benefit checks. The requirement to receive payments by direct deposit can be waived if it would impose a hardship on the individual.¹³ SSA's *Guide for Organizational Representative Payees* encourages the representative payee to have benefit payments directly deposited into a bank account.

CA received approximately 100 beneficiary payments by check each month rather than by direct deposit. CA personnel stamped the checks for deposit and prepared the deposit ticket. The checks were then sent to the cashier at the Bayview Medical Center. The Bayview Medical Center does not maintain separate accounts for CA's clients. The checks are coded with the CA account number. The cash application department at the Bayview Medical Center enters the amount and code, which interfaces with the general ledger. This process creates one cumulative transaction.

At the end of each month, CA's System Administrator prepares a summary report on the remaining balance in CA's account. This information is verified to the Cash

⁸ POMS, GN 00603.020.

⁹ See *id.*

¹⁰ POMS, GN 00603.010.

¹¹ Federal Deposit Insurance Corporation insures bank deposits up to \$100,000 per account.

¹² 31 C.F.R. § 208.3 (2002).

¹³ 31 C.F.R. § 208.4 (2002).

Application report. Based on this reconciliation, adjustments are made to the general ledger.

Because multiple employees have access to benefit checks before deposit, there is a risk of theft and/or loss. The use of direct deposit minimizes this risk. To better protect the beneficiaries' monies, CA should have the beneficiaries' checks directly deposited into a separate bank account.

**Not All Beneficiaries
Were Recorded in
the RPS**

The Omnibus Budget Reconciliation Act of 1990 requires that SSA provide for specific identification and control of all representative payees and the beneficiaries they serve.¹⁴ As a result, SSA established the RPS, an on-line system for entering and retrieving information about representative payees and those applying to be representative payees. RPS contains data about representative payee applicants, beneficiaries in the representative payee's care, and the relationship between the representative payee and the beneficiaries. In addition, SSA uses the RPS to select a sample of beneficiaries for review during its site visits of representative payees.

To determine the number of beneficiaries in CA's care, we compared CA's records of beneficiaries to SSA's records of beneficiaries in RPS. We identified two beneficiaries for whom CA served as the representative payee who were not recorded in RPS. However, according to a query of SSA's Supplemental Security Record, these two individuals were in current pay status and had selected CA as their representative payee.

CONCLUSIONS AND RECOMMENDATIONS

Generally, CA (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 SSA's policies and procedures. However, CA should allocate interest to the conserved fund balances of SSA beneficiaries, establish a separate bank account for SSA benefit payments and use direct deposit for receiving SSA benefit payments.

We recommend that SSA:

1. Request that CA allocate interest to the conserved funds of SSA beneficiaries.
2. Request that CA establish a separate bank account for beneficiary payments.
3. Request that CA establish direct deposit for all beneficiaries in its care.
4. Correct RPS to include all beneficiaries for whom CA was selected as a representative payee.

¹⁴ 42 U.S.C. § 405(j)(2) (2002); POMS, GN 00502.120.

AGENCY COMMENTS

SSA agreed with our recommendations. The full text of SSA's comments is included in Appendix D.

REPRESENTATIVE PAYEE COMMENTS

CA agreed with our recommendations. The full text of CA's comments is included in Appendix E.

OTHER MATTER

One method SSA uses to monitor representative payees is the Representative Payee Report (RPR). The RPR is intended to assist 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.¹⁵ Depending on the representative payee's responses, SSA may contact the representative payee to determine its continued suitability.

As part of our audit, we planned to review a sample of completed RPRs to determine whether CA met its reporting responsibilities. We requested the most recently completed RPRs for 30 beneficiaries. SSA was able to provide all 30 RPRs. However, two of these reports were several years old and we could not determine whether the information was reasonable or CA had properly submitted the RPRs.



Steven L. Schaeffer

¹⁵ 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

CA	Creative Alternatives
C.F.R.	Code of Federal Regulations
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
U.S.C.	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 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 interest.

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) (2002).

³ See *id.*

Scope and Methodology

Our audit covered the period July 1, 2002 through June 30, 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 and field office staff to obtain background information about Creative Alternatives' (CA) performance as a representative payee.
- Obtained from SSA's Representative Payee System (RPS) a list of individuals who were in CA's care between July 1, 2002 and June 30, 2003.
- Obtained from CA a list of individuals who were in its care between July 1, 2002 and June 30, 2003.
- Compared and reconciled the RPS and the CA list to identify the population of SSA beneficiaries who were in CA's care between July 1, 2002 and June 30, 2003. The population was determined to be 104 beneficiaries.
- Reviewed CA's internal controls over the receipt and disbursement of SSA benefit payments.
- Performed the following tests for each beneficiary.
 - Compared and reconciled benefit amounts paid according to CA's records to benefit amounts paid according to SSA's payment records.
 - Reviewed the CA accounting records to determine whether benefits were properly spent or conserved on the individual's behalf.
 - Traced a sample of expenses to source documents and examined the underlying documentation for reasonableness and authenticity.
- Interviewed 10 beneficiaries to determine whether their basic needs were being met.
- Reviewed 30 Representative Payee Reports to determine whether CA properly reported to SSA how benefits were used.

We determined CA'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 CA'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 Baltimore, Maryland, from August to December 2003. We conducted our audit in accordance with generally accepted government auditing standards.

Agency Comments

May 20, 2004

OIG DRAFT REPORT, "AUDIT OF CREATIVE ALTERNATIVES - AN ORGANIZATIONAL REPRESENTATIVE PAYEE FOR THE SOCIAL SECURITY ADMINISTRATION" (A-15-04-14033)
AUDIT NO. 22003072

We appreciate the opportunity to comment on the draft report of the OIG findings relating to an audit of Creative Alternatives, a representative payee in Maryland. We have one comment on the "Results of Review" section. On page 3, mention is made that there were 13 SSA beneficiaries for whom the payee had not invested conserved funds in an interest-yielding account, and that the payee agreed to begin allocating interest to these beneficiaries on a quarterly basis. It isn't clear from the report how the payee intends to do this. Has the payee moved the funds into an interest-yielding account, or will it allocate interest as if the funds had been in an interest-yielding account? If the latter, there is no regulatory requirement that the payee do this. The regulations simply state that interest-yielding accounts are the preferred, not the required, repository for conserved funds. It has been our experience that a payee will sometimes opt to invest in a non-interest-bearing account to avoid the costly bank fees sometimes associated with interest-bearing accounts.

With the following qualifications, we agree with the recommendations made in the subject report.

With respect to Recommendation #3, 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 Creative Alternatives to consider the use of direct deposit, unless its response to this report indicates that process would impose a hardship. Conversely, if it agrees to establish direct deposit, we will work with the payee to make the appropriate inputs.

With respect to Recommendation #4, if you will furnish us with the names and SSNs of the two beneficiaries who were not loaded to the Representative Payee System (RPS), we will be happy to take corrective action.

If you have any questions about our comments, feel free to contact Jim Siegel of our Programs Support Team at (215) 597-1364

/s/

Laurie Watkins.

Representative Payee Comments

June 8, 2004

Steven L. Schaeffer
Assistant Inspector General for Audit
Office of Inspector General
4 L 1 Operations Building
6401 Security Blvd.
Baltimore, Maryland 21235

Dear Mr. Schaeffer:

Thank you for the opportunity to respond to the Office of the Inspector General's (OIG) Report: Creative Alternatives An Organizational Representative Payee for the Social Security Administration (A-15-04-14033) Creative Alternatives (CA) is part of the Johns Hopkins Bayview Medical Center's Community Psychiatry Program.

Results of Review, Conclusions, and Recommendations.

The OIG audit reported that "CA 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." The audit identified the following recommendations:

- (1) CA deposit conserved funds in an interest – yielding account;
- (2) CA establish a separate bank account for beneficiary payments;
- (3) CA establish direct deposit for all beneficiaries in its care.

Creative Alternatives Response:

- (1) JHBMC has begun allocating interest earned on SSA beneficiary funds effective July 1, 2003.
- (2) JHBMC will establish a separate bank account to manage the SSA beneficiary funds. The account will be established and in use by September 1, 2004.
- (3) JHBMC will establish direct deposit of beneficiary funds from SSA into the newly established bank account. We will attempt to have this process in place by September 1, 2004.

We hope that this plan is acceptable. I can be reached at (410) 550-5667 if you need further information.

Sincerely,

/s/

Tom Marshall,
Manager
Adult Mental Health Programs
Creative Alternatives
2400 Broening Highway, Suite 180
Baltimore, Maryland 21224

OIG Contacts and Staff Acknowledgments

OIG Contacts

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Staff Acknowledgments

In addition to the persons named above:

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