

Audit Report

Payee Assistance Management, Inc.,
an Organizational Representative
Payee for the Social Security
Administration

OIG

Office of the Inspector General
SOCIAL SECURITY ADMINISTRATION

MEMORANDUM

Date: March 27, 2013 **Refer To:**

To: The Commissioner

From: Inspector General

Subject: Payee Assistance Management, Inc., an Organizational Representative Payee for the Social Security Administration (A-06-12-11261)

The attached final report presents the results of our audit. Our objective was to determine whether Payee Assistance Management, Inc., had effective safeguards over the receipt and disbursement of Social Security benefits and used and accounted for Social Security benefits in accordance with the Social Security Administration's policies and procedures.

If you wish to discuss the final report, please call me or have your staff contact Steven L. Schaeffer, Assistant Inspector General for Audit, at (410) 965-9700.



Patrick P. O'Carroll, Jr.

Attachment

Payee Assistance Management, Inc., an Organizational Representative Payee for the Social Security Administration

A-06-12-11261



March 2013

Office of Audit Report Summary

Objective

We initiated this audit at the request of the Social Security Administration's (SSA) Denver Regional Commissioner. Our objective was to determine whether Payee Assistance Management, Inc. (PAM), had effective safeguards over the receipt and disbursement of Social Security benefits and used and accounted for benefits in accordance with SSA's policies and procedures.

Background

Congress granted SSA the authority to appoint representative payees for those beneficiaries judged incapable of managing or directing the management of their benefits. Representative payees receive and manage payments on behalf of these beneficiaries.

PAM is a fee-for-service organizational representative payee that served 17 Social Security beneficiaries and Supplemental Security Income recipients.

Our Findings

PAM did not have effective safeguards over the receipt and disbursement of Social Security benefits and did not always use and account for Social Security benefits in accordance with SSA policies and procedures.

PAM transferred beneficiary funds into a non-SSA-authorized collective account and acknowledged it commingled beneficiary funds with funds that belonged to an undisclosed number of non-beneficiaries. PAM did not adequately account for beneficiary funds in the collective account, adequately monitor or report Supplemental Security Income recipient resources, or account for unspent beneficiary funds paid to a travel agency. PAM double charged a beneficiary for purchases, charged unallowable payee fees, and maintained insufficient bonding. We also identified internal control deficiencies related to documentation of transactions and separation of duties.

Our Recommendations

PAM resigned as an SSA representative payee effective June 30, 2012, and SSA assigned another representative payee to manage these beneficiaries' payments. However, a number of issues remained unresolved. As such, we made eight recommendations for corrective action.

SSA agreed with our recommendations.

TABLE OF CONTENTS

Objective	1
Background	1
Results of Review	2
Inadequate Accounting or Receipt and Disbursement of Funds	3
Use of Non-SSA-Authorized Collective Bank Account.....	4
Collective Account Balances Did Not Agree with Subsidiary Ledger Balances	4
Checks Payable to CASH	4
Personal Funds Not Adequately Tracked	5
Deposit Sources Not Identified	5
\$194,000 in Unmanaged and Unaccounted for Conserved Funds.....	5
Failure to Report that SSI Recipients Exceeded Resource Limits.....	6
Travel Deposits Not Tracked.....	8
Beneficiary Fund Balances Charged Twice for Same Purchase.....	8
Unallowable Representative Payee Fees	9
Insufficient Bonding	10
Unreported Beneficiary Address Changes.....	11
Bank Account Incorrectly Titled	11
Internal Control Deficiencies	11
Lack of Separation of Duties	12
PAM Resigned as SSA Representative Payee	12
Conclusions.....	12
Recommendations.....	13
Agency Comments.....	13
Appendix A – Scope and Methodology	A-1
Appendix B – Example of Personal Funds Not Adequately Tracked.....	B-1
Appendix C – Agency Comments.....	C-1
Appendix D – Major Contributors.....	D-1

ABBREVIATIONS

C.F.R.	Code of Federal Regulations
OIG	Office of the Inspector General
PAM	Payee Assistance Management, Inc.
POMS	Program Operations Manual System
SSA	Social Security Administration
SSI	Supplemental Security Income
U.S.C.	United States Code
VA	Department of Veterans Affairs

OBJECTIVE

We initiated this audit at the request of the Social Security Administration's (SSA) Denver Regional Commissioner. Our objective was to determine whether Payee Assistance Management, Inc., (PAM) had effective safeguards over the receipt and disbursement of Social Security benefits and used and accounted for Social Security benefits in accordance with SSA policies and procedures.

BACKGROUND

SSA provides benefits to the most vulnerable members of society—the young, elderly, and disabled. Congress granted SSA the authority to appoint representative payees for those beneficiaries judged incapable of managing or directing the management of their benefits.¹ Representative payees receive and manage payments on behalf of these beneficiaries.² Given the vulnerability of the beneficiaries and the risk that a representative payee may misuse beneficiaries' funds, it is imperative that SSA have appropriate safeguards to ensure representative payees meet their responsibilities.

As a fee-for-service organizational representative payee, PAM served 17 Social Security beneficiaries and Supplemental Security Income (SSI) recipients.³ Non-governmental, fee-for-service payees must be bonded to be authorized by SSA to collect a fee.⁴ This constitutes a bond or insurance contract that protects the representative payee and SSA from financial loss caused by an organization's or its employees' actions.

In March 2011, the Denver Region hired an accounting firm to review PAM's financial records and practices. The accounting firm identified several deficiencies. In November 2011, the Denver Regional Commissioner requested that we determine whether PAM complied with Social Security policies and procedures. See Appendix A for additional information on our scope and methodology.

¹ *Social Security Act* §§ 205(j) and 1631(a)(2); 42 U.S.C. §§ 405(j) and 1383(a)(2).

² 20 C.F.R. §§ 404.2001 and 416.601.

³ As of January 1, 2011, PAM was serving 17 beneficiaries. We use the term "beneficiary" throughout the report in reference to both Social Security beneficiaries and SSI recipients.

⁴ *Social Security Act*, §§ 205(j)(10) and 1631(a)(2)(I), 42 U.S.C. 405(j)(10) and 1383(a)(2)(I); 20 C.F.R. §§ 404.2040a and 416.640a; SSA, POMS GN 00506.105.A (October 24, 2011).

RESULTS OF REVIEW

PAM did not have effective safeguards over the receipt and disbursement of Social Security benefits and did not always use and account for Social Security benefits in accordance with SSA policies and procedures.

PAM did not provide all accounting records requested for our audit. During our review, PAM officially notified SSA that, effective June 30, 2012, it would no longer serve as a representative payee.

Based on our review of available PAM accounting records, we determined PAM:

- Transferred funds from beneficiaries' individual bank accounts into a non-SSA-approved collective bank account. PAM acknowledged it commingled beneficiary and non-beneficiary funds in this collective account. We identified the following additional discrepancies.
 - ✓ The collective account balance that appeared on the December 31, 2011 check register did not agree with the sum of individual account balances recorded on collective account subsidiary ledgers.
 - ✓ In Calendar Year 2011, PAM's collective account check register listed 41 checks, totaling over \$103,000, payable to "Cash."
 - ✓ PAM wrote \$4,450 in checks from beneficiaries' bank accounts and appeared to have deposited the funds into the collective account.⁵ PAM decreased beneficiaries' individual account balances but made no corresponding accounting entries to increase the balances of the beneficiaries' collective account subsidiary ledgers.
 - ✓ PAM did not record deposit sources to identify client funds on the collective account check register.
- Did not manage or account for more than \$194,000 in conserved funds belonging to one beneficiary.
- Did not adequately monitor or effectively manage SSI recipients' resources. By failing to report that it held conserved fund balances in excess of the \$2,000 resource limit for two SSI recipients, SSA issued \$11,760 in SSI payments to PAM that recipients were not entitled to receive.

⁵ Based on our review of cancelled checks and discussion with PAM's Executive Director.

- Did not account for at least \$2,379 in beneficiary funds held at a travel agency but not spent for beneficiary travel. PAM also let a beneficiary's \$700 check payable to a travel agency remain outstanding for at least 9 months.⁶
- Double charged a beneficiary for two purchases totaling \$593.
- Charged SSA beneficiaries unallowable representative payee fees.
- Did not maintain sufficient bonding to protect SSA from potential losses caused by the actions of PAM and its employees.
- Did not always notify SSA of changes in beneficiary addresses.
- Did not always title bank accounts in accordance with SSA policy.

These issues occurred because PAM's system of internal controls did not adequately ensure PAM documented transactions and used SSA funds only for the beneficiaries' use and benefit. We referred these matters to our Office of Investigations for potential criminal investigation.

Inadequate Accounting or Receipt and Disbursement of Funds

PAM did not comply with SSA policy requiring that representative payees maintain accurate and complete records for the Social Security benefits it manages.⁷ PAM opened an individual checking or savings account for each SSA beneficiary it served and had SSA benefits electronically deposited into these accounts.⁸ However, PAM then transferred beneficiary funds from the individual bank accounts into a non-SSA-authorized collective bank account, commingling beneficiary funds with non-SSA beneficiaries' funds. Based on the records provided, PAM did not accurately account for deposits to, and expenditures from, the collective account.

⁶ PAM issued a \$700 check from a beneficiary's individual account to the travel agency in August 2011 and reduced the beneficiary's account balance by \$700. However, the travel agency confirmed it did not receive this payment and we confirmed the check was not cashed. At the time of our review, PAM had not credited these funds to the beneficiary's account.

⁷ SSA, POMS, GN 00502.113.C.1 and D.3.b (October 13, 2011).

⁸ Four SSA beneficiaries also received Department of Veterans Affairs (VA) benefit payments. PAM commingled VA and SSA payments in the individual accounts.

Use of Non-SSA-Authorized Collective Bank Account

PAM maintained separate checking or savings accounts for each beneficiary. SSA electronically deposited payments into these individual bank accounts. Available accounting records indicated that PAM accurately recorded SSA deposits for each beneficiary. Available records also indicated that PAM wrote checks on these accounts to pay beneficiary living expenses.

Available accounting records further indicated that PAM subsequently transferred funds from beneficiaries' individual accounts into a non-SSA-authorized collective bank account.⁹ PAM acknowledged it commingled beneficiary funds in the collective account with funds from an undetermined number of non-beneficiaries.¹⁰

Collective Account Balances Did Not Agree with Subsidiary Ledger Balances

PAM provided documentation identifying collective account subsidiary ledger ending balances and the collective account check register balances as of December 31, 2011. Our comparison of this documentation indicated that subsidiary ledger balances totaled \$10,347.06 less than the balance recorded on PAM's collective account check register.

Representative payees are required to make accounts and supporting records available to SSA upon request.¹¹ We requested that PAM provide all collective account subsidiary ledgers so we could examine collective account deposit and withdrawal activity. PAM's Executive Director stated that, because the collective account included non-SSA beneficiary funds, he would not provide complete subsidiary ledgers. As a result, we could not determine why subsidiary ledger balances did not agree with the collective bank account check register.

Checks Payable to CASH

The collective account check register indicated that PAM wrote 41 checks, totaling \$103,000, from the collective account payable to CASH. Once issued, anyone could negotiate these checks, making it virtually impossible to determine how PAM actually used these funds.

⁹ SSA, POMS, GN 00603.020.B (June 5, 2008); requires that representative payees obtain SSA approval before depositing beneficiary funds into a collective bank account. District Office officials stated that SSA was not aware of the existence of the collective account and did not approve PAM's use of a collective bank account.

¹⁰ PAM did not disclose the collective account until our site visit to payee facilities in May 2012.

¹¹ SSA, POMS, GN 00603.020.B.1.f (June 5, 2008).

Personal Funds Not Adequately Tracked

PAM did not always maintain receipts and supporting documentation to account for beneficiaries' disbursed funds. SSA requires that representative payees maintain accurate and complete records of the Social Security benefits it manages.¹² We identified seven checks, totaling \$4,450, that PAM wrote from beneficiary checking accounts that did not have adequate receipts or supporting documentation. PAM accounting records indicated these expenditures were funds requests.

Based on our review of cancelled checks and discussion with PAM personnel, it appeared PAM wrote checks payable to the beneficiaries, deducted the check amounts from the beneficiaries' individual checking accounts, and deposited the proceeds into the collective account (see Appendix B).¹³

However, PAM did not always make corresponding accounting entries to increase balances recorded on the beneficiaries' collective account subsidiary ledgers.

Deposit Sources Not Identified

PAM did not identify the source of deposits on its collective bank account check register. SSA requires that representative payees maintain accurate and complete records.¹⁴ When we reviewed the collective account check register, we found the transaction descriptions for the respective deposits were blank or simply read "DEP." As a result, we could not identify the source of funds deposited or determine which client subsidiary ledgers should have been credited.

\$194,000 in Unmanaged and Unaccounted for Conserved Funds

PAM did not manage or account for approximately \$194,000 in conserved funds¹⁵ that belonged to an SSA beneficiary in its care. In 2011, an accounting firm SSA hired to review PAM's accounting records reported that PAM did not account for this beneficiary's large conserved fund balance in its accounting records. Accounting firm personnel stated that during their review, PAM's Executive Director said the organization held the funds in a certificate of deposit. We interviewed the beneficiary, and he expressed concern about the status of his funds. The beneficiary stated that PAM's Executive Director told him a judge had his funds.

¹² 20 C.F.R. §§ 404.2035 and 416.635; SSA, POMS, GN 00502.113.C.1 and D.3.b (October 13, 2011).

¹³ We identified another \$3,500 in payments from beneficiaries' individual accounts that appeared to have been similarly deposited into the collective account. However, PAM did not provide complete copies of the beneficiaries' collective account subsidiary ledgers. As a result, we could not determine whether PAM recorded the deposits on the beneficiaries' collective account subsidiary ledgers.

¹⁴ 20 C.F.R. §§ 404.2035 and 416.635; SSA, POMS, GN 00502.113.C.1 and D.3.b (October 13, 2011).

¹⁵ Part of a \$232,359 retroactive military service-related disability payment the VA awarded in May 2003.

We asked PAM's Executive Director to explain what happened to the beneficiary's funds. The Executive Director initially told us the beneficiary's money had been deposited into a mutual fund, but he provided no documentation to support the assertion. The Executive Director subsequently told us that PAM was never given access to, or control over, the beneficiary's conserved funds. He said the beneficiary's previous representative payee did not turn over the funds.

We contacted the previous representative payee,¹⁶ which provided documentation that it invested the beneficiary's conserved funds in an annuity. The payee also provided documents indicating that a South Dakota court terminated its legal conservatorship over the beneficiary in November 2009, and PAM was the beneficiary's current conservator.

Insurance company customer service personnel confirmed the beneficiary's annuity value was over \$194,000 as of November 1, 2012. Customer service personnel also stated the annuity was titled solely in the beneficiary's name, the insurance company did not have the beneficiary's address or telephone number, and no funds had been withdrawn from the account since 2008.

As a result of the confusion surrounding access to, and control over these funds, a large conserved fund balance that could have been used to help meet the beneficiary's needs had been unused for more than 4 years. Further, the circumstances resulted in a situation where a legally incompetent beneficiary was mistakenly granted unrestricted access to a large conserved fund balance. When SSA becomes aware of a situation where a VA fiduciary is not performing his/her duties in a veteran's best interests, SSA should furnish this information to the VA regional office for investigation.¹⁷ We referred this matter to the VA OIG on November 16, 2012.

Failure to Report that SSI Recipients Exceeded Resource Limits

PAM failed to inform SSA that it held two SSI recipients' conserved funds in excess of allowable resource limits. Representative payees are required to notify SSA of events or changes that affect a beneficiary's entitlement to benefits, including when an SSI recipient's resources exceed the \$2,000 allowable limit.¹⁸ SSI overpayments occur when (1) a recipient's resources exceed the allowable resource limit because of changes in the recipient's circumstances that

¹⁶ In March 2003, the VA determined the beneficiary was legally incompetent and appointed a South Dakota representative payee to serve as his payee and conservator and to receive his retroactive disability payment. In December 2003, the VA, in concert with the District Court in Sheridan, Wyoming, transferred the beneficiary's conservatorship to PAM with respect to "undeposited and future VA benefits."

¹⁷ SSA, POMS, GN 00602.100 (March 2, 2011).

¹⁸ 20 C.F.R. §§ 416.708 and 416.1205(c); SSA, POMS, SI 01110.003.A.2 (December 8, 2010) and GN 00502.113.C.1 (October 13, 2011); SSA, *A Guide for Representative Payees* (No. 05-10076), pages 16 and 17, (January 2009).

affect eligibility of benefits¹⁹ or (2) the representative payee is improperly conserving benefits by not spending the funds on the recipient's current and foreseeable needs.²⁰

Available records indicated that on multiple occasions in Calendar Year 2011, PAM transferred funds between the recipient's individual bank account and the collective account at the end of the month so recipient's individual bank account balances fell below the \$2,000 resource limit. While this practice caused the beneficiary's individual account balances to drop below the \$2,000 SSI resource limit, the beneficiary's total countable resources were not actually reduced.

To illustrate, available records indicated that near the end of December 2011, an SSI recipient's individual bank account contained \$3,243. This amount of resources should have made the recipient ineligible for continued SSI payments. PAM accounting records indicated that, on December 27, 2011, PAM transferred \$2,000 from the recipient's individual account into the collective account, leaving \$1,243 in the recipient's individual account. Available documents indicate that PAM cited "spend down" as the reason for the funds request (see example below).

Figure 1: Funds Request to "Spend Down" Recipient's Account Balance.

FUND REQUEST

825

DATE:	12-27-11	
CLIENT NAME:	[REDACTED]	
PAY TO ORDER OF:	\$2000.00 [REDACTED]	
AMOUNT REQUESTED:		
REASON FOR FUND REQUEST:	Spend down	
DATE NEEDED BY:		
REQUEST MADE BY:		
ISC Review/Date:		
RECEIPT NEEDED:	YES _____ NO _____	
CHECK NUMBER #	CHECK AMOUNT \$	DATE OF CHECK

However, we confirmed these funds were not actually spent on beneficiary needs, they were simply moved into the collective account. We confirmed that PAM made similar transfers throughout the year for both recipients.

PAM did not report to SSA that it held conserved funds in excess of the \$2,000 resource limit and continued receiving SSI payments on behalf of both recipients. PAM's Executive Director stated he intended for these funds to be issued directly to the recipients. However, for undisclosed reasons, the funds remained in the collective account. The Executive Director acknowledged the transfer amounts should have been applied against the recipient's resource limit. As a result of PAM's reporting failures, in Calendar Year 2011, SSA issued PAM about \$11,760 in SSI payments that these recipients were not entitled to receive.

¹⁹ SSA, POMS, SI 01110.003.A.2 (December 8, 2010) and GN 00502.113.C.1 (October 13, 2011).

²⁰ SSA, POMS, GN 00602.130.A (March 5, 2002) and GN 00603.001.B.2 (November 15, 2004).

Travel Deposits Not Tracked

PAM did not account for \$3,079 in beneficiary funds paid to a travel agency that were not used for beneficiary travel. PAM reduced beneficiary account balances when it paid the travel agency; however, PAM did not record outstanding/unused travel deposits in beneficiary accounting records or otherwise credit beneficiary account balances for the unused funds.

In August 2011, PAM issued a \$700 check from a beneficiary's individual account payable to a travel agency. PAM's Executive Director told us the payment was a travel deposit but provided no receipts or supporting documentation (for example, travel itinerary or travel agency invoice) for the payment. We requested that PAM's Executive Director identify any additional beneficiary funds on deposit at the travel agency. He stated there were no other funds at the travel agency and that PAM no longer used that particular travel agency's services.

We contacted travel agency personnel, who stated they had not received the \$700 check, and obtained confirmation from PAM's bank that, as of May 2012, the check had not been cashed. Travel agency personnel further confirmed that they held an additional \$2,379 in beneficiary funds that PAM sent as advance travel deposits for possible future vacation travel. Travel agency personnel stated the balances were refundable upon request. We provided SSA with travel agency contact information and travel deposit balances so it could attempt to recover the beneficiaries' funds.

PAM's collective account check register also listed a \$4,000 check paid to a second travel agency in December 2011. The check register did not indicate which beneficiary's funds were used for this payment. We could not identify travel agency contact information using Internet searches. As a result, we could not determine whether the travel agency received these funds, the funds were spent for beneficiary travel, or unspent funds remained on deposit at the travel agency.

Beneficiary Fund Balances Charged Twice for Same Purchase

On two occasions, available records indicated that PAM charged a beneficiary twice for the same purchase. After making the \$593 purchases, PAM deducted amounts from balances recorded on both the beneficiary's individual checking and collective accounts.

- In March 2011, PAM wrote a \$483 check payable to a furniture company using the beneficiary's individual checking account. PAM posted the check to the beneficiary's individual check register and referenced the invoice number on the check. PAM provided a \$483 invoice, dated March 16, 2011, from the furniture company to support the furniture purchase. However, we observed that on the same day, PAM deducted an identical amount from the beneficiary's collective account balance. PAM's Executive Director stated these were two separate purchases of identical furniture. According to the Executive Director, PAM purchased the beneficiary a chair, which the beneficiary subsequently ruined. As a result, PAM purchased a second, replacement chair for the beneficiary. The Executive Director did not provide any vendor documentation to indicate these were separate purchases. Also, the Executive Director offered no explanation when we pointed out that

PAM's accounting records indicated both purchases occurred on the same day—contradicting his explanation.

- In January 2012, PAM wrote a \$110 check on the beneficiary's individual checking account for the purchase a Techno Beat Sound Ball.²¹ PAM provided an invoice that listed an order date of November 9, 2011. However, we observed that on November 9, 2011, PAM also deducted the same amount from the beneficiary's collective account balance for the purchase of a "lighted play ball." PAM's Executive Director acknowledged the duplicate charge and stated it was an accounting error.

Representative payees should have appropriate documentation to support expenditure of Social Security benefits for beneficiaries' needs.²²

Unallowable Representative Payee Fees

SSA approved PAM to collect a fee for its payee services. However, we identified three instances where PAM charged beneficiaries unallowable representative payee fees. SSA policy prohibits collecting a payee fee from a beneficiary if an organization receives compensation for performing any representative payee services for the individual from another source that equals or exceeds the payee's allowable fee.²³

- Two SSA beneficiaries in PAM's care also received VA benefit payments. PAM charged both beneficiaries a monthly VA benefit management fee ranging from \$133 to \$141, in addition to the \$37 monthly fee it charged the beneficiaries to manage their SSA benefits. Because PAM charged a higher fee to manage the VA benefits, it was not authorized to charge the second fee to manage the SSA funds. SSA's Office of SSI and Representative Payee Policy staff confirmed that PAM was not eligible to collect any of the \$851 in fees it charged these beneficiaries in Calendar Year 2011.
- PAM improperly charged one beneficiary at least \$111 in payee fees. Because SSA had never established PAM as this beneficiary's payee, PAM was not authorized to assess payee fees.²⁴ Available accounting records indicated that PAM received the beneficiary's April 2011 benefit payment and, in April and May 2011, deducted \$111 in payee fees from his account balance. However, effective May 2011, SSA had assigned a different payee to

²¹ Per the vendor's Website, a Techno Beat Ball features two colors with two distinct sounds. The rechargeable ball can be used to improve motor skills, play games, and practice sound localization skills.

²² 20 C.F.R. §§ 404.2065 and 416.665. SSA regulations indicate that representative payees must account for the use of benefits, should keep records of how benefits were used to complete accounting reports, and must make those records available upon SSA's request.

²³ SSA, POMS, GN 00506.220.A (August 18, 2004).

²⁴ SSA, POMS, GN 00506.210.A (March 27, 2003).

receive and manage the beneficiary's payments. Available records and discussion with the successor payee indicated that PAM did not forward the successor payee any of the beneficiary's conserved funds.²⁵

PAM's Executive Director stated he was not aware that SSA policy prohibited the charging of multiple user fees and acknowledged that he had been assessing applicable beneficiaries both VA and SSA user fees "for years." SSA requires that a representative payee use benefits to meet a beneficiary's current and foreseeable needs. Any other use of benefits, such as unauthorized fees charged by the representative payee, could constitute misuse of benefits.

Insufficient Bonding

PAM did not maintain sufficient bond coverage to protect SSA from financial loss caused by its officers or staff. SSA policy requires that non-governmental fee-for-service representative payees be bonded to collect a fee.²⁶ The bond must be sufficient to compensate the organization or SSA for any loss of SSA client benefits and conserved funds. If the representative payee defaults on its obligation, SSA can make a claim directly against the surety bond.

PAM's bond listed coverage for \$52,000. However, the minimum coverage must equal the amount of beneficiaries' conserved funds on-hand plus the average monthly amount of Social Security payments received by the organization.²⁷ As of January 2011, the average amount of Social Security payments PAM received each month totaled \$11,130, and PAM maintained at least \$63,005 in additional conserved fund balances for the beneficiaries, indicating PAM's bond coverage was at least \$22,135 less than required.

We also determined that PAM improperly named its Executive Director as the sole insured principal—not PAM. As a result, the bond did not appear to cover potential losses caused by the acts of PAM's two other staff. Staff in SSA's Office of SSI and Representative Payee Policy stated the organizational payee, not its Executive Director, should have been listed as the insured principal.

²⁵ PAM provided this beneficiary's accounting records only through May 2011. These records indicated that PAM charged the beneficiary a \$37 SSA payee fee in April 2011 and two \$37 SSA payee fees in May 2011. Also, as of May 31, 2011, the beneficiary's conserved fund balance was \$9,799. PAM also provided a summary of client ledger balances as of December 31, 2011. The summary indicated that PAM continued to hold over \$6,475 in conserved funds for this beneficiary—\$3,324 less than it held on May 31, 2011. PAM did not provide documentation to support any expenditure of this beneficiary's funds after May 31, 2011. As a result, we could not determine whether PAM continued charging the beneficiary a payee fee after May 2011.

²⁶ *Social Security Act*, §§ 205(j)(10) and 1631(a)(2)(I); 42 U.S.C. 405(j)(10) and 1383(a)(2)(I); 20 C.F.R. §§ 404.2040a and 416.640a; and SSA, POMS, GN 00506.105.A (October 24, 2011).

²⁷ SSA, POMS, GN 00506.105.C.5 (October 24, 2011).

As a result of these bonding deficiencies, SSA was not adequately protected from potential losses caused by actions of PAM or its employees.

Unreported Beneficiary Address Changes

PAM did not always notify SSA when beneficiaries moved. SSA requires that representative payees notify SSA of events or changes that will affect a beneficiary's entitlement to benefits, amount of benefits, or their ability to fulfill the responsibilities of being a payee.²⁸ However, PAM did not provide SSA with current address information for seven beneficiaries—as required by SSA policy.²⁹

Bank Account Incorrectly Titled

PAM did not always properly title beneficiary bank accounts. SSA policy states that, if a representative payee requests direct deposit, the title of the bank account must show that the representative payee has only a fiduciary interest in the account.³⁰ However, we noted PAM titled one account used to receive a beneficiary's direct deposited funds under the name of its Executive Director instead of under PAM.

SSA appointed PAM as representative payee for the beneficiary—not the Executive Director. We asked the Executive Director why the beneficiary's bank account was titled under his name. He responded that he forgot to update the title.³¹ As a result, the beneficiary's bank account did not show that PAM had a fiduciary interest in the account.

Internal Control Deficiencies

Organizational representative payees are responsible for all beneficiary funds received. As a result, SSA expects organizational representative payees to establish internal procedures and guidelines to ensure the security of beneficiary funds. During our review, we identified internal control deficiencies related to documentation of transactions and separation of duties.

²⁸ 20 C.F.R. §§ 404.2035(d) and 416.635(d); 20 C.F.R. §§ 404.2035(f) and 416.635(f).

²⁹ SSA, POMS, GN 00502.113.C.1 (October 13, 2011).

³⁰ SSA, POMS, GN 02402.055.A.1 (October 7, 2011).

³¹ The Executive Director stated he previously served as the beneficiary's individual representative payee and that SSA subsequently assigned the beneficiary to PAM.

Lack of Separation of Duties

PAM did not have adequate separation of duties as they related to the disbursement of Social Security funds. Specifically, the same staff could approve expenditures, sign checks, and record and document transactions. One individual should not control all aspects of financial transactions. Internal procedures should provide for adequate review and supervision of accounting functions. Sufficient segregation of duties ensures key duties and responsibilities are divided among different staff to reduce the risk of error, misuse, or fraud.

We understand it is sometimes difficult to have the optimum separation of duties with limited staff. While PAM may not have established the ideal internal control system, it could have enacted compensating controls to reduce the risk of misuse of beneficiaries' funds. For example, key financial transaction duties could have been divided among two or more staff. In addition, such controls may have helped prevent and/or detect errors in recording beneficiary receipts and expenditures.

PAM Resigned as SSA Representative Payee

Following our initial site visit, PAM resigned as an SSA representative payee, effective June 30, 2012. As a result, we discontinued audit work at PAM's offices. When PAM resigned, it had not provided all requested accounting records and supporting documentation for transactions that occurred during the period covered by our review. Further, PAM had not provided complete accounting records and documentation related to collective account transactions occurring during the timeframe covered by our review.

CONCLUSIONS

PAM did not have effective safeguards over the receipt and disbursement of Social Security benefits and did not always use or account for Social Security benefits in accordance with SSA's policies and procedures.

PAM transferred beneficiary funds into a non-SSA authorized collective account and commingled beneficiary funds with funds that belonged to an undisclosed number of non-beneficiaries. PAM did not adequately account for beneficiary funds in the collective account, adequately monitor or report SSI recipient resources, or account for unspent beneficiary funds paid to a travel agency. It also double charged a beneficiary for purchases, charged unallowable payee fees, and was insufficiently bonded. We also identified internal control deficiencies related to documentation of transactions and separation of duties.

RECOMMENDATIONS

PAM resigned as an SSA representative payee effective June 30, 2012, and SSA assigned another representative payee to manage these beneficiaries' payments. However, a number of issues remain unresolved. As such, we recommend SSA:

1. Pursue recovery of \$4,450 on behalf of beneficiaries whose funds were "lost" in the collective account, as appropriate.
2. Pursue recovery of SSI overpayments that resulted from PAM's failure to report conserved fund balances in excess of SSI eligibility limits.
3. Pursue recovery of \$2,379 in unspent beneficiary funds held by a travel agency and \$700 in unspent travel funds held by PAM and forward recovered funds to the successor payee.
4. Determine whether SSA beneficiaries have unspent funds at the second travel agency.
5. Pursue recovery of \$593 in duplicate charges from PAM and forward recovered funds to the successor payee.
6. Pursue recovery of \$962 in unallowable management fees PAM charged beneficiaries in its care and forward recovered funds to the successor payee.
7. Verify that the successor payee is sufficiently bonded.
8. Work with a successor payee to establish internal procedures and guidelines that ensure the security of beneficiary funds.

AGENCY COMMENTS

SSA agreed with our recommendations. See Appendix C for the full text of SSA's comments.

APPENDICES

Appendix A – SCOPE AND METHODOLOGY

Our audit period included transactions for the period January 1 through December 31, 2011. To accomplish our objectives, we:

- Reviewed applicable Federal laws and regulations and Social Security Administration (SSA) policies and procedures pertaining to representative payees.
- Reviewed prior work performed in the representative payee area by the Office of the Inspector General and an accounting firm hired by SSA.
- Interviewed both SSA Denver Region and Payee Assistance Management, Inc., (PAM) personnel.
- Reviewed PAM's, internal controls over the receipt and disbursement of Social Security benefits.
- Requested PAM provide accounting records to support receipt and use of SSA beneficiary funds during the period reviewed. We also contacted PAM's bank and obtained selected cancelled checks and supporting documentation. PAM did not provide all requested accounting records and resigned as an SSA representative, effective June 30, 2012.
- Compared and reconciled benefit amounts SSA paid the beneficiaries with deposits recorded on PAM beneficiary accounting records.
- Reviewed accounting records provided to determine whether benefits were properly spent or conserved on the individual's behalf.
- Selected 50 high-dollar expenditures for detailed review. We compared selected transactions to available source documents and examined the underlying documentation for reasonableness and authenticity.
- Interviewed 10 of the 17 beneficiaries who lived in and around Sheridan, Wyoming, to determine whether their basic needs were being met.

We performed our audit in Dallas, Texas, and in Sheridan, Wyoming, between February and November 2012. We conducted this performance audit in accordance with generally acceptable government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix B – EXAMPLE OF PERSONAL FUNDS NOT ADEQUATELY TRACKED

Based on our review of cancelled checks and discussion with PAM personnel, it appeared PAM wrote checks payable to the beneficiaries, deducted the check amounts from the beneficiary's individual accounts, and deposited the proceeds in the collective account.

Figure B-1: Copy of \$1,000 Check Written on Individual Beneficiary Account Payable to the Beneficiary but Deposited into PAM Collective Account

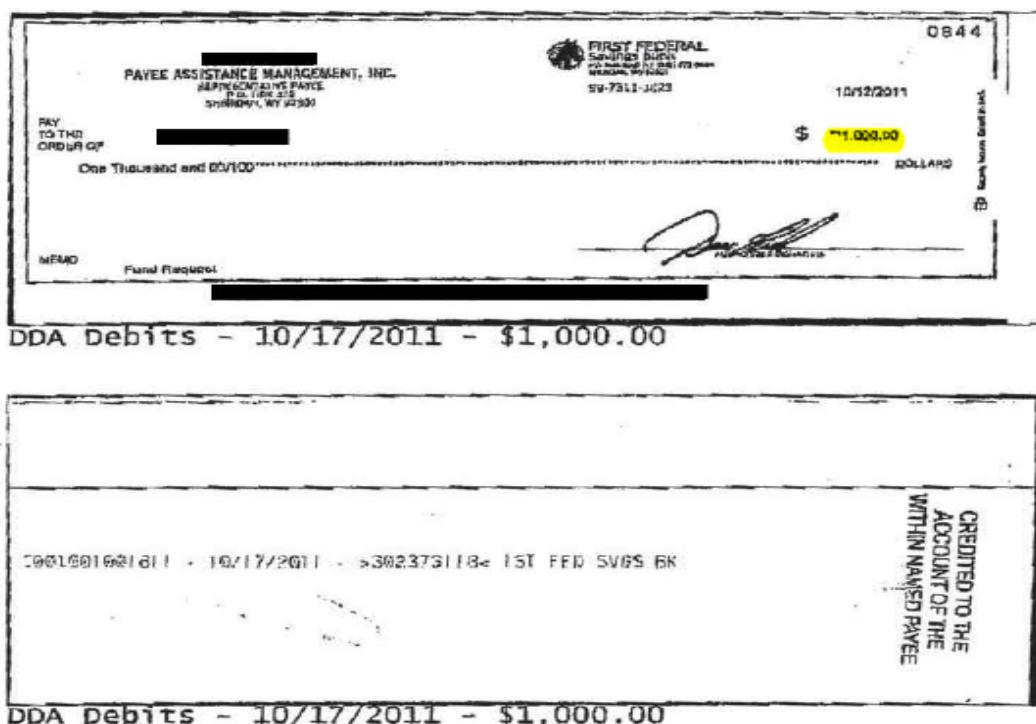


Figure B–2: Accounting Entry Reducing Beneficiary’s Individual Account Balance

10/10/2011	Inter	Interest Earned cat: Interest Income	R	0.01	2,112.82
10/12/2011	844	██████████ cat: Personal memo: Fund Request	1,000.00 R		1,112.82

Figure B–3: Collective Account Bank Statement Showing Deposit of Beneficiary Funds

Daily Balance Summary for Client Funds Ckng			Deposits	Withdrawals	Balance
Date	Description				36,408.86
	Previous Balance				
09-23	MISC CHKS		980.81		
09-28	CUSTOMER DEPOSIT		460.86		
10-03	MISC. CKS		1,647.06		
10-05	MISC CHK		1,169.02		
10-11	14 MISC CKS		5,282.25		
10-17	██████████	1,000.00			
10-17	MISC CKS-17		2,151.60		
10-20	INTEREST POSTING		0.31		
	Ending Balance				42,158.34

Figure B–4: No October 2011 Deposits Recorded on Beneficiary Collective Account Subsidiary Ledger

10/3/2011	Spending/██████████			-1.00	516.53
10/4/2011	Spending/██████████			-1.00	515.53
10/5/2011	Special O/██████████			-45.00	470.53
10/5/2011	Spending/██████████			-1.00	469.53
10/6/2011	Spending/██████████			-1.00	468.53
10/6/2011	House Funds/██████████			-40.00	428.53
10/7/2011	Spending/██████████			-1.00	427.53
10/7/2011	Church/██████████			-3.00	424.53
10/10/2011	Spending/██████████			-1.00	423.53
10/11/2011	Spending/██████████			-1.00	422.53
10/12/2011	Art Class/██████████			-75.00	347.53
10/12/2011	Spending/██████████			-1.00	346.53
10/13/2011	Spending/██████████			-1.00	345.53
10/17/2011	Bingo/██████████			-25.00	320.53
10/18/2011	Spending/██████████			-1.00	319.53
10/19/2011	Spending/██████████			-1.00	318.53
10/24/2011	Church/Spending/██████████			-4.00	314.53
10/24/2011	Spending/██████████			-1.00	313.53
10/25/2011	Spending/██████████			-1.00	312.53
10/27/2011	Spending/██████████			-1.00	311.53
10/28/2011	Weekend Spending/██████████			-15.00	296.53
10/31/2011	Spending/██████████			-5.00	291.53

However, as indicated above, PAM did not make a corresponding accounting entry to credit the beneficiary’s collective account subsidiary ledger for the amount withdrawn from his individual account and deposited into the collective account.

Appendix C – AGENCY COMMENTS

Date: February 15, 2013

Subject: Signed Draft Report on PAM, Inc. (A-06-12-11261)--Denver's Reply

Patrick,

Thank you for the opportunity to review and provide comments on the attached draft report. We agree with the findings and dollar amounts of all of your recommendations. Actions taken to date include:

- Per OIG's verbal request during the January 3, 2013 closeout conference, we have not taken any action on Recommendations 1, 2, 5, and 6, pending the results of your criminal investigation.
- For Recommendation 3, we initiated recovery actions on January 18, 2013, and are currently tracking.
- For Recommendation 4, we contacted Latitudes Travel and found that there were no unspent funds.
- For Recommendation 7, we have verified that the successor payee is sufficiently bonded.
- For Recommendation 8, we have verified the successor payee's internal procedures and guidelines are sufficient to ensure the security of the beneficiary funds.

If your staff has any questions, they may contact Jacqueline Casias, Deputy Center Director, at 303-844-2348.

Sean Brune

Appendix D – MAJOR CONTRIBUTORS

Ron Gunia, Director, Dallas Audit Division

Neha Smith, Audit Manager, Denver Audit Office

David McGhee, Senior Auditor

MISSION

By conducting independent and objective audits, evaluations, and investigations, the Office of the Inspector General (OIG) inspires public confidence in the integrity and security of the Social Security Administration's (SSA) programs and operations and protects them against fraud, waste, and abuse. We provide timely, useful, and reliable information and advice to Administration officials, Congress, and the public.

CONNECT WITH US

The OIG Website (<http://oig.ssa.gov/>) gives you access to a wealth of information about OIG. On our Website, you can report fraud as well as find the following.

- OIG news
- audit reports
- investigative summaries
- Semiannual Reports to Congress
- fraud advisories
- press releases
- congressional testimony
- an interactive blog, “[Beyond The Numbers](#)” where we welcome your comments

In addition, we provide these avenues of communication through our social media channels.



[Watch us on YouTube](#)



[Like us on Facebook](#)



[Follow us on Twitter](#)



[Subscribe to our RSS feeds or email updates](#)

OBTAIN COPIES OF AUDIT REPORTS

To obtain copies of our reports, visit our Website at <http://oig.ssa.gov/audits-and-investigations/audit-reports/all>. For notification of newly released reports, sign up for e-updates at <http://oig.ssa.gov/e-updates>.

REPORT FRAUD, WASTE, AND ABUSE

To report fraud, waste, and abuse, contact the Office of the Inspector General via

Website: <http://oig.ssa.gov/report-fraud-waste-or-abuse>

Mail: Social Security Fraud Hotline
P.O. Box 17785
Baltimore, Maryland 21235

FAX: 410-597-0118

Telephone: 1-800-269-0271 from 10:00 a.m. to 4:00 p.m. Eastern Standard Time

TTY: 1-866-501-2101 for the deaf or hard of hearing