



SOCIAL SECURITY

MEMORANDUM

Date: October 1, 2004

Refer To:

To: Paul D. Barnes
Regional Commissioner
Atlanta

From: Assistant Inspector General
for Audit

Subject: Family Services, Inc., of Charleston, South Carolina, A Fee-for-Service Representative Payee for the Social Security Administration (A-13-04-14002)

Attached is a copy of our final report. Our objectives were to determine whether the Family Services Inc., (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 policies and procedures.

Please comment within 60 days from the date of this memorandum on corrective action taken or planned on each recommendation. If you wish to discuss the final report, please call me or have your staff contact Shirley E. Todd, Director, General Management Audit Division, at (410) 966-9365.



Steven L. Schaeffer

Attachment

**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**FAMILY SERVICES, INC., OF
CHARLESTON, SOUTH CAROLINA,
A FEE-FOR-SERVICE
REPRESENTATIVE PAYEE
FOR THE SOCIAL SECURITY
ADMINISTRATION**

October 2004

A-13-04-14002

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.

Authority

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:

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.
- 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.
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.

To ensure objectivity, the IG Act empowers the IG with:

- Independence to determine what reviews to perform.
- Access to all information necessary for the reviews.
- Authority to publish findings and recommendations based on the reviews.

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.

Executive Summary

OBJECTIVE

Our objectives were to determine whether Family Services, Inc. (1) had effective safeguards over the receipt and disbursements of Social Security benefits and (2) used and accounted for Social Security benefits in accordance with Social Security Administration (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' payments. A representative payee may be an individual or an organization. SSA selects representative payees for Old-Age, Survivors and Disability Insurance beneficiaries or Supplemental Security Income recipients when representative payments would serve the individual's interests. Representative payees are responsible for using benefits in the beneficiary's best interests.

RESULTS OF REVIEW

Our audit showed Family Services, Inc. (FSI) did not (1) effectively safeguard the receipt and disbursement of SSA benefits, or (2) ensure that Social Security benefits were accounted for in accordance with SSA's policies and procedures.

FSI had significant weaknesses, which prevented it from meeting its responsibilities as a representative payee. Specifically we found:

- FSI had limited contact with beneficiaries,
- FSI did not have adequate internal controls to effectively safeguard the receipt and disbursement of SSA benefits,
- a separate bank account was not established to protect the beneficiaries' interest or properly titled to show beneficiary ownership,
- FSI was not the representative payee of record for five beneficiaries, and
- conserved funds for some deceased beneficiaries were not sent to the estate of the beneficiaries.

In addition, we identified an issue related to SSA's oversight of the Representative Payee Program.

RECOMMENDATIONS

We recommend that SSA:

1. Make a determination as to whether FSI should continue to serve as a representative payee.

If SSA's decision is to continue to let FSI serve as a representative payee then SSA should:

2. Ensure FSI interacts on a regular basis with the beneficiaries they serve to confirm their needs are being met.
3. Require FSI to improve its internal controls over the receipt and disbursement of SSA funds.
4. Direct FSI to establish a separate and properly titled bank account for SSA beneficiaries' funds.
5. Require FSI to discontinue negotiating Social Security checks made payable to beneficiaries for whom FSI is not the representative payee.

In addition we recommend that SSA:

6. Determine whether five beneficiaries need representative payees.
7. Forward the remaining \$2,650 in deceased beneficiary conserved funds to the estates of the deceased beneficiaries or contact the appropriate State probate court for instructions on disbursement of the remaining funds.
8. Update the Representative Payee System to reflect all current beneficiaries in FSI's care.

AGENCY COMMENTS

SSA concurred with all of our recommendations.

REPRESENTATIVE PAYEE COMMENTS

FSI concurred with all of our recommendations.

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Introduction

OBJECTIVE

Our objectives were to determine whether Family Services, Inc. (1) had effective safeguards over the receipt and disbursements of Social Security benefits and (2) used and accounted for Social Security benefits in accordance with Social Security Administration (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 beneficiaries¹ payments.² A representative payee may be an individual or an organization. SSA selects representative payees for Old-Age, Survivors and Disability Insurance beneficiaries or Supplemental Security Income recipients when representative payments would serve the individual's interests.

Representative payees are responsible for using benefits in the beneficiary's best interests. 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 individual'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.

FAMILY SERVICES, INC.

Family Services, Inc. (FSI) is a fee-for-service organization providing financial management services to individuals and families. Additionally, FSI provides behavioral health services, consumer credit counseling, domestic violence intervention, and housing and financial education. During our 12-month audit period, FSI served as representative payee for 302 SSA beneficiaries. FSI reported it also served as the

¹ We use the term "beneficiary" generically in this report to refer to both Old-Age, Survivors and Disability Insurance beneficiaries and Supplemental Security Income recipients.

² 42 U.S.C. §§ 405(j), 1383(a)(2).

voluntary conservator³ or legal guardian⁴ for approximately 197 additional individuals. Organizationally, FSI had 21 employees of which 6 were designated to serve 499 individuals. FSI experienced significant employee turnover during our audit. For example, during the period we conducted our fieldwork four different individuals performed the duties of the Controller position and three different individuals performed the duties of the Accountant position.

³ A conservator is a third party appointed by an individual through a State court to manage an individual's assets.

⁴ A guardian is a third party appointed by a State court to manage the affairs of an individual.

Results of Review

Our audit showed FSI did not (1) effectively safeguard the receipt and disbursement of SSA benefits, or (2) ensure that Social Security benefits were accounted for in accordance with SSA's policies and procedures.

FSI had significant weaknesses, which prevented it from meeting its responsibilities as a representative payee. Specifically we found:

- FSI had limited contact with beneficiaries,
- FSI did not have adequate internal controls to effectively safeguard the receipt and disbursement of SSA benefits,
- a separate bank account was not established to protect the beneficiaries' interest or properly titled to show beneficiary ownership,
- FSI was not the representative payee of record for five beneficiaries, and
- conserved funds for some deceased beneficiaries were not sent to the estate of the beneficiaries.

In addition, we identified an issue related to SSA's oversight of the Representative Payee Program.

FSI HAD LIMITED CONTACT WITH BENEFICIARIES

We determined FSI had limited contact with the beneficiaries it serves. FSI employees failed to meet on a regular basis with the 302 beneficiaries the organization served. Within SSA policies, one of a representative payee's primary responsibilities is to ensure the beneficiary's day-to-day needs are met. This includes, but is not limited to meeting with the beneficiary on a regular basis to ascertain his/her current and foreseeable needs.⁵ Based on our discussion with its employees, FSI viewed its responsibility as limited to providing only financial management services. FSI had two Financial Management Counselors to attend to the needs of approximately 302 beneficiaries.

For example, our review of one beneficiary's expenses found FSI issued a \$500 check in July 2002 to a discount store at the request of the beneficiary for the purchase of clothes. However, FSI never inquired whether the beneficiary needed to purchase new clothes or verify whether the new clothes were actually purchased. In September 2002, the beneficiary made a similar request and FSI issued another check for \$200 to the same discount store. Again, FSI made no attempt to determine if the beneficiary needed more clothing.

⁵ SSA Program Operations Manual System (POMS) GN 00502.113

FSI DID NOT HAVE ADEQUATE INTERNAL CONTROLS TO EFFECTIVELY SAFEGUARD THE RECEIPT AND DISBURSEMENT OF SSA BENEFITS

Our review also identified weak internal controls at FSI. SSA's *Guide for Organizational Representative Payees* states that a representative payee must keep written records to track how much money is received; how much money is spent; and the balance saved for each beneficiary.⁶ SSA also requires that the representative payee record how benefits are used to provide an accurate report when requested.⁷ In addition, SSA policy states representative payees are required to keep accurate and complete records to show how much they received in SSA benefits and how that money was used.⁸

FSI did not have adequate internal controls to effectively safeguard the receipt and disbursement of SSA benefits. Specifically, we found FSI did not:

- secure blank checks or maintain a sequential log to identify missing checks,
- reconcile bank statements to the detailed beneficiary data,
- maintain supporting documentation for all beneficiaries' expenses, and
- implement a review or approval function in the check disbursement process.

Blank Checks Were Not Secured

During our June 2003 visit, we discovered that FSI did not secure its blank checks used to disburse funds on behalf of beneficiaries or maintain a sequential check log to identify missing blank checks. This vulnerability could have resulted in employee theft of beneficiary funds. We verified FSI corrected this vulnerability during our return visit in September 2003.

Bank Statements Were Not Reconciled

During our 12-month audit period, bank statements were not reconciled to the detailed beneficiary data. Since bank reconciliations had not been performed, there was no assurance beneficiaries' conserved funds, as recorded in FSI's financial records, accurately reflected the amounts included in the bank account balance. The FSI accountant lacked the basic knowledge of how to perform this reconciliation and understanding of why the reconciliation was an important internal control mechanism.

We discussed the issue of bank statements not being reconciled with the Controller at the time of our June 2003 visit. During our return visit in September 2003, we were informed the reconciliation of bank statements was being performed. We reviewed

⁶ Representative Payment Program, Guide for Organizational Representative Payees, dated May 26, 2004.

⁷ POMS GN 00605.001B.1

⁸ Id.

FSI's July 2003 financial records. Our review identified a \$17,000 difference between the amounts recorded in the subsidiary ledgers of the beneficiaries and the monthly bank statement accounts. The beginning monthly balance used for July 2003 was the ending balance for June 2003 bank statement. Since the June 2003 bank statement was never reconciled with the beneficiaries' financial data, we were unable to determine the accuracy of any account balances.

**Beneficiaries'
Expenses Lacked
Supporting
Documentation**

We originally had planned to review a small number of expense items in the files for each of our 50 randomly selected beneficiaries. We modified our plans after determining that documentation for many beneficiaries' expenses were not maintained. Of the 17 beneficiary files reviewed for documentation supporting expenses, 8 files lacked documentation for all expense items reviewed, 8 files lacked documentation for most of the expense items reviewed, and 1 file contained supporting documentation for all expense items reviewed. We consulted with FSI Management and determined that FSI did not require supporting documentation for beneficiary expenses. Having determined a widespread deficiency in maintaining documentation for beneficiaries' expenses in the first 17 files we reviewed, we did not continue our analysis of the remaining 33 files. For the 17 files, we reviewed 60 expense items totaling over \$7,600 and determined that 43 expense items totaling about \$5,000 (about 66 percent) did not have supporting documentation.

**Check
Disbursements
Were Not Reviewed
or Approved**

FSI lacked a review or approval function for its check disbursement process. Payment of expenses was handled by two employees. The employees requested disbursement of checks to pay beneficiary expenses by entering certain information onto computer input screens. Checks requested were batched for printing at the end of each day. The checks were not matched against invoices for review or approved by another employee. Actual check printing and mailing was handled by a third employee. This employee did not perform any review or approval function prior to mailing the checks. FSI was vulnerable to employee theft.

We discussed its check disbursement process with FSI officials. Based on these discussions, FSI was generally not aware of the vulnerabilities that existed in its internal controls over the check disbursement process. We identified this vulnerability during our June 2003 visit. Upon our return visit in September 2003, we were advised that FSI implemented a 10 percent review of disbursements. We did not verify whether FSI implemented a review or approval process for its check disbursement process.

A SEPARATE BANK ACCOUNT WAS NOT ESTABLISHED TO PROTECT THE BENEFICIARIES' INTEREST OR PROPERLY TITLED TO SHOW BENEFICIARY OWNERSHIP

FSI did not establish a separate bank account and have it properly titled for SSA beneficiaries in its care. The Code of Federal Regulations (CFR) states benefit

payments that are not needed for the beneficiaries' current needs must be conserved or invested on behalf of the beneficiary.⁹ All investments must show the representative payee holds the benefit payments in trust for the beneficiary.¹⁰ Additionally, the CFR prefers that excess funds be invested in U.S. Savings Bonds or deposited in an interest- or dividend-bearing account in a bank, trust company, credit union, or savings and loan association, which is insured under either Federal or State law.¹¹ SSA policy states that a representative payee may establish collective checking and savings accounts to hold monies belonging to several beneficiaries.¹² However, to protect the beneficiaries' funds, the account title must show the funds belong to the beneficiaries and not the representative payee.¹³

In addition, the Federal Deposit Insurance Corporation (FDIC) insures bank deposits up to \$100,000 per individual.¹⁴ FDIC provides additional coverage of \$100,000 per individual for collective bank accounts, if the account is properly titled to show the fiduciary relationship between the account holder and its clients. FDIC recognizes a claim for insurance coverage based on a fiduciary relationship, only if the relationship is expressly disclosed, by way of specific references, in the bank's deposit account records.¹⁵

A Separate Bank Account Was Not Established

We found FSI had not established a separate bank account for SSA beneficiaries. The bank account used for beneficiaries' benefit payments contained funds belonging to all individuals served by FSI. For example, the bank account containing beneficiaries' funds was also used for Veterans Administration

recipients. In addition, the bank account held funds resulting from FSI being the court-appointed conservator and/or guardian for other individuals under its care. The one bank account used by FSI for all of its clients did not identify SSA beneficiaries' ownership interest in the account. As of April 2003, there was \$708,633 in this account of which approximately \$340,000 was for the 302 SSA beneficiaries. Without identifying beneficiaries' ownership interest, the funds belonging to SSA beneficiaries contained within the account are at risk.

Bank Account Was Not Properly Titled and Was Underinsured

FSI's current bank account title is, "Family Services, Inc., Client Account." The titling does not reflect ownership of the account by SSA beneficiaries. FSI officials stated they were not aware the bank account was not titled as required by SSA and for FDIC coverage of beneficiaries' funds. As of

April 2003, the bank account balance for SSA beneficiaries was approximately \$340,000. Of this amount, \$240,000 may be underinsured for not meeting FDIC titling requirements.

⁹ 20 C.F.R. §§ 404.2045(a), 416.645(b).

¹⁰ Id.

¹¹ 20 C.F.R. §§ 404.2045(b), 416.645(b).

¹² POMS GN 00603.020B

¹³ Id.

¹⁴ 12 U.S.C. § 330.1(b).

¹⁵ 12 C.F.R. § 330.5(b)(1) .

FSI WAS NOT THE REPRESENTATIVE PAYEE OF RECORD FOR FIVE BENEFICIARIES

FSI received benefit payments for five beneficiaries for whom it was not the representative payee of record. SSA policy states that if the mailing address is a hospital, nursing home, rest home, etc., the beneficiary may need a representative payee.¹⁶ Also, according to SSA policy, a beneficiary's mailing address should generally be the address where he/she resides.¹⁷ Any other address is questionable and is not acceptable if it facilitates an assignment¹⁸ of benefits, directs checks to a location where the beneficiary cannot readily negotiate them, or permits the beneficiary to conceal information that would result in nonpayment of benefits.¹⁹

Questionable Mailing Address and Improper Endorsement of Beneficiary Checks

its bank account 25 benefit payment checks. The checks, totaling approximately \$11,100, were deposited without the beneficiary's signature to endorse the checks. As a result, beneficiary funds were improperly assigned to FSI.

We informed FSI of the improper check endorsements and requested SSA to determine whether these three beneficiaries were capable of managing their own funds. If SSA determines that these individuals are incapable of managing their own funds, SSA should appoint a suitable representative payee.

Inappropriate Direct Deposit of Beneficiary Checks

SSA policy indicates a beneficiary or representative payee can begin direct deposit at any time.²¹ When a request for direct deposit is received, SSA must verify the identity of the person making the request and the account title meets its requirements. SSA's policy for account titling indicates that an individual's ownership interest in the account must be reflected in the account title or the sub-account title.²² Consequently, if these requirements are not met, the request for direct deposit would be denied.

¹⁶ POMS GN 02605.025

¹⁷ Id.

¹⁸ Assignment is defined as the transfer of the right to, or payment of, benefits to a party other than the beneficiary or his/her representative payee. The Social Security Act prohibits the assignment of benefits. See 42 U.S.C. § 407(a).

¹⁹ POMS GN 02605.025A.

²⁰ For two of the three beneficiaries, the receipt, endorsement and deposit of benefit payment checks occurred subsequent to our audit period.

²¹ POMS GN 02402.025A

²² POMS GN 02402.050

We identified two beneficiaries who had their benefit payments directly deposited into FSI's bank account. The account was not titled to indicate ownership by these beneficiaries. Neither of these beneficiaries have a representative payee, nor have access to this bank account. As a result, the direct deposit of approximately \$8,700 in benefit payments into FSI's bank account was improperly assigned to FSI, and did not comply with SSA policy.

We informed SSA of the benefit payments being directly deposited into FSI's account for the two beneficiaries. We requested SSA to determine whether these two beneficiaries were capable of managing their own funds. If SSA determines that these individuals are incapable of managing their own funds, SSA should appoint a suitable representative payee.

CONSERVED FUNDS FOR SOME DECEASED BENEFICIARIES WERE NOT SENT TO THE ESTATE OF THE BENEFICIARY

FSI officials informed us they had been instructed by SSA District Office (DO) staff to return deceased beneficiaries' conserved funds to the Agency. SSA policy states, "It will not get involved in deciding who is entitled to the estate funds. If there is no legal representative of the beneficiary's estate, the representative payee must contact the State probate court for instructions on what to do with remaining conserved funds. If a payee wishes to claim reimbursement, he/she should make his/her request to the legal representative of the estate. If the representative payee refunds conserved benefit funds to SSA, return them to him/her with the above explanation."²³

SSA Did Not Comply With Conserved Funds Policy

The direction provided by the DO did not comply with Agency policy. We verified FSI refunded over \$10,800 to SSA. We discussed FSI actions and Agency policy with DO staff in Charleston, South Carolina and SSA Regional Office staff located in Atlanta, Georgia. SSA advised us this was a one

time request to have all conserved funds returned to the Agency for beneficiaries no longer in FSI's care. The request was the result of a prior SSA site review. In that review it was discovered FSI had been retaining conserved funds for beneficiaries no longer in its care.

Of the approximately \$10,800 FSI returned, SSA withheld overpayment amounts due to the Agency of about \$8,150. As of May 2004, the DO still retained about \$2,650 in deceased beneficiaries' funds. The DO should forward the remaining funds to the estates of the deceased beneficiaries or contact the appropriate State probate court for instructions on what to do with remaining funds.

²³ POMS GN 00603.100B.2

ISSUE RELATED TO SSA'S OVERSIGHT OF THE REPRESENTATIVE PAYMENT PROGRAM

Missing Data in RPS

We identified three beneficiaries for whom FSI served as the representative payee that were not recorded in the Representative Payee System (RPS). The Social Security Act requires that SSA develop a system to maintain data about all representative payees and the individuals they serve.²⁴ As a result, SSA established the RPS, which is an online system that contains data about representative payee applicants; individuals in the representative payee's care; and the relationship between the representative payee and the beneficiaries they serve.

In addition, SSA uses the RPS to select representative payees for triennial site reviews. Specifically, SSA selects from RPS fee-for-service representative payees, all volume representative payees serving 100 or more beneficiaries, and individual representative payees serving 20 or more beneficiaries for site reviews.²⁵ From the selected representative payees, SSA obtains a sample of beneficiaries for review.

To determine the number of beneficiaries in FSI's care, we compared FSI's records of beneficiaries to SSA's records of beneficiaries in RPS. As a result, we identified three beneficiaries for whom FSI served as the representative payee that were not recorded in RPS. We provided SSA with the names of the three beneficiaries, so it could take corrective action to add them to RPS.

Inaccurate information in RPS could result in a representative payee not being identified for a site review. In addition, all beneficiaries in a representative payee's care may not be properly identified for a selected review.

²⁴ Social Security Act § 205 (j)(2)(B)(ii).

²⁵ SSA reports it is modifying the system selection process so it can review organizational payees serving 50 or more beneficiaries and individual payees serving 15 or more beneficiaries, as required by Section 102(b) of the Social Security Act of 2004.

Conclusions and Recommendations

Our audit showed FSI did not (1) effectively safeguard the receipt and disbursement of SSA benefits, and (2) ensure that Social Security benefits were accounted for in accordance with SSA's policies and procedures.

FSI had significant weaknesses, which prevented it from meeting its responsibilities as a representative payee. FSI needs to make changes and improvements in several areas of its representative payee program.

We recommend that SSA:

1. Make a determination as to whether FSI should continue to serve as a representative payee.

If SSA's decision is to continue to let FSI serve as a representative payee then SSA should:

2. Ensure FSI interacts on a regular basis with the beneficiaries they serve to confirm their needs are being met.
3. Require FSI to improve its internal controls over the receipt and disbursement of SSA funds.
4. Direct FSI to establish a separate and properly titled bank account for SSA beneficiaries' funds.
5. Require FSI to discontinue negotiating Social Security checks made payable to beneficiaries for whom FSI is not the representative payee.

In addition we recommend that SSA:

6. Determine whether five beneficiaries need representative payees.
7. Forward the remaining \$2,650 in deceased beneficiary conserved funds to the estates of the deceased beneficiaries or contact the appropriate State probate court for instructions on disbursement of the remaining funds.
8. Update the Representative Payee System to reflect all current beneficiaries in FSI's care.

AGENCY COMMENTS

SSA concurred with all of our recommendations. The Agency stated it has already addressed the areas requiring corrective actions. The full text of SSA's comments is included in Appendix C.

REPRESENTATIVE PAYEE COMMENTS

FSI concurred with our recommendations. The representative payee stated it has already taken corrective actions to address our recommendations. The full text of FSI's comments is included in Appendix D.

Other Matters

SSA Could Not Always Retrieve RPRs

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) continued suitability of the representative payee, and (3) continued need for representative payment.²⁶ Depending on the representative payee's responses, SSA may contact the representative payees to determine their continued suitability.

To determine whether FSI properly reported to SSA how benefits were used, we requested that SSA provide the most recently completed RPRs for 50 of the representative payee's beneficiaries. However, SSA provided 40 of the 50 RPRs we requested. For the remaining 10, we could not determine whether FSI properly submitted RPRs.

SSA is making improvements with the retrieval of RPRs. In January 2003, SSA established an electronic imaging system to image and electronically store all RPR forms. In November 2003, SSA staff stated that all RPRs received without attachments are being "imaged" and are electronically retrievable.

²⁶ POMS GN 00605.001B1.

Appendices

Appendix A

Acronyms

C.F.R.	Code of Federal Regulations
DO	District Office
FDIC	Federal Deposit Insurance Corporation
FSI	Family Services, Inc.
OIG	Office of the Inspector General
POMS	Program Operations Manual System
RPR	Representative Payee Reports
RPS	Representative Payee System
SSA	Social Security Administration
U.S.C.	United States Code

Scope and Methodology

Our audit covered the period May 1, 2002 through April 30, 2003.

To accomplish our objectives, we:

- Reviewed SSA's policies and procedures related to representative payee selection and monitoring.
- Reviewed prior work done by the Office of the Inspector General (OIG), Government Accountability Office and Social Security Administration.
- Reviewed prior audits of the representative payee by public accounting firms or other auditors.
- Reviewed critical documentation (e.g., Representative Accountability Form SSA-623, Master Beneficiary Record, Supplemental Security Income Record, Payment History Update System Record and documentation from the Representative Payee System).
- Performed a site review at the representative payee's location. Which included:
 1. a review and evaluation of the representative payee's internal controls over the receipt and disbursement of Social Security benefits;
 2. interviews with the representative payee and others;
 3. testing of the representative payee's financial records (i.e., bank reconciliation, third-party confirmation, asset verification, trend analysis, etc.) and;
 4. observations and interviews with a sample of beneficiaries to determine if the representative payee is meeting the beneficiaries' needs.
- Used OIG authorized statistical software to randomly select samples as needed.
- Performed the following tests for a random sample of 50 beneficiaries.
 - Compared and reconciled benefit amounts received according to Family Services Inc.'s (FSI) records to benefit amounts paid according to SSA's payment records.
 - Posted FSI's reported expenses, recalculated the conserved fund balance and compared and reconciled the conserved fund balances according to FSI's records to the conserved fund balances we recalculated.

- We planned to review a sample of expenses for all 50 beneficiaries in our sample. However, after we selected 60 expense items for 17 beneficiaries, we did not find supporting documentation for 43 expense items. FSI management advised us that supporting documentation was not required. We discontinued further review and reported this condition as a finding.

We determined FSI's computer processed data to be sufficiently reliable for its 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 the representative payee's automated accounting system. We completed 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 review in Charleston, South Carolina and Baltimore, Maryland, from April 2003 through June 2004. We conducted our review in accordance with generally accepted government auditing standards.

Appendix C

Agency Comments

We reviewed the draft memo regarding the Audit of Family Services, Inc. (FSI) and concur with the recommendations presented. We have taken appropriate actions as indicated below:

1. Make a determination as to whether FSI should continue to serve as a representative payee.

RESPONSE: After careful consideration, we have determined that FSI should continue to serve as a payee. This decision is based on the improvements that have been made in FSI's accounting system and audit trail. However, SSA will conduct a follow-up audit within 6 months to ensure that all OIG recommendations have been implemented. In addition, a formal training session is planned to provide detailed guidance for the organization. It is noted that FSI performs valuable payee services for approximately 293 individuals for whom no one else is available to serve. It is SSA's responsibility to provide FSI with the guidance needed for properly assisting the beneficiaries.

The field office has addressed recommendations #2 through #5 with the organization. FSI is taking this very seriously. Caprice Atterbury, Controller at FSI, received their copy of the draft report and contacted SSA for suggestions. It was explained that it is FSI's responsibility to ensure compliance with SSA regulations and procedures, but SSA will provide guidance for proper use of the beneficiaries' funds. FSI will provide supporting documentation that the bank accounts are now properly titled.

2. Ensure FSI interacts on a regular basis with the beneficiaries they serve to confirm their needs are being met.

RESPONSE: FSI will interact more often and personally with the claimants by establishing regular routine home visits.

3. Require FSI to improve its internal controls over the receipt and disbursement of SSA funds.

RESPONSE: The counselors will use their judgment on "special disbursements", but they will document that the expenditures result from direct contact with the claimant either by phone or in person.

4. Direct FSI to establish a separate and properly titled bank account for SSA beneficiaries' funds.

RESPONSE: Once the bank account is properly titled, the "under-insured" issue will be resolved.

5. Require FSI to discontinue negotiating Social Security checks made payable to beneficiaries for whom FSI is not the representative payee.

RESPONSE: FSI now understands that it is improper to negotiate any check for claimants for whom they are not the representative payee. This practice was immediately terminated.

6. Determine whether five beneficiaries need representative payees.

RESPONSE: SSA completed payee development on 3/4/04 for the five individuals identified by OIG. This issue is now resolved.

7. Forward the remaining \$2,650 in deceased beneficiary conserved funds to the estates of the deceased beneficiaries or contact the appropriate State probate court for instructions on disbursement of the remaining funds.

RESPONSE: SSA took action as recommended to forward money on deceased beneficiaries' conserved funds. The conserved funds in the amount of \$2,664.50 on the nine deceased beneficiaries were returned 5/27/04 for proper distribution according to State probate court. In the follow-up audit we will verify that these monies were returned to the estates and or probate court as appropriate.

8. Update the Representative Payee System to reflect all current beneficiaries in FSI's care.

RESPONSE: SSA took action to resolve this problem 3/4/04.

We want to extend our appreciation to the OIG Audit Team for conducting this audit and helping to ensure that the duties and responsibilities of FSI are accomplished in the best interest of the beneficiaries. Questions concerning these comments may be directed to Barbara Luke at 404-562-1322.

/s/

Paul D. Barnes

Regional Commissioner

Appendix D

Representative Payee Comments

Family Services, Inc.
4925 Lacross Road, Suite 215
North Charleston, SC 29406
Phone 843-744-1348
Fax 843-744-1348

Mr. Steven L. Schaeffer
Assistant Inspector General for Audit
Social Security
6401 Security Blvd/4-L-1 Oper
Baltimore, MD 21235-0001

September 14, 2004

Response to: Draft Report, Family Services, Inc., of Charleston, South Carolina,
A Fee-for-Service Representative Payee for the Social Security
Administration (A-13-04-14002)

Dear Mr. Schaeffer:

Thank you for your letter of August 9, 2004. As a result of your audits at Family Services, Inc. (FSI) in June and September 2003, FSI has implemented many fiscal and management improvements. On December 1, 2003 we hired a new CPA/Controller with 20 years experience as an independent auditor and controller, primarily for non-profit organizations. She has been strengthening internal controls, and since December 2003, FSI has successfully completed 5 audits from various outside grantors and oversight agencies. On January 1, 2004, the acting Executive Director assumed the permanent Executive Director position. He is an MBA with extensive business management experience. He was Acting Executive Director at FSI for part of 2003 and in September 2003 he began addressing the issues your auditors brought up.

Family Services, Inc. (FSI) is a not for profit 501 c 3 organization. Our Representative Payee Program is supported by grants from the United Way, SSBG, and fee for service (\$30 per month in 2003). The program is not carried on "for profit" nor does it earn a profit. FSI provides much needed representative services to hundreds of individuals living below poverty level in our community. When grant funds are available we do not charge a fee to eligible beneficiaries.

Response to Recommendations:

1. We believe FSI should continue to serve as a representative payee. FSI is been pleased to respond to all of the audit's findings and is, or has, corrected all known deficiencies.

2. FSI counselors interact on a regular basis with our representative payee beneficiaries. The counselors have regular phone contact to discuss their beneficiary's needs. Many of the beneficiaries come to the office weekly to pick up their food or personal expense checks. At that time they talk to the front desk receptionist, and may meet with their counselor to discuss special needs. If a beneficiary's weekly check does not arrive the beneficiary phones the counselor immediately. The counselors often meet with beneficiaries at SSA, at utility companies to pay urgent bills, and in urgent situations. If beneficiaries request funds to purchase clothes the counselor discusses the request with the beneficiary and usually requires a letter from the beneficiary, and issues the check to the store where the beneficiary plans to buy clothes. During the Christmas holidays and September Day of Caring, Family Services and community volunteers gather gifts and visit beneficiaries selected by the counselors for special attention.
We are implementing a system to confirm that all clients are contacted on a regular basis. Quarterly, clients that the counselors are concerned about will be visited.
3. FSI has drastically improved internal controls over the receipt and disbursement of SSA funds.
 - a. A new Representative Payee Management (RPM) software system was implemented in June 2003. The system provides greatly improved reconciliation and case management reports.
 - b. Daily, the Financial Management Accountant reconciles the receipt of funds into the bank account to the receipts posted to the RPM system. The reconciliation is reviewed and approved by the CPA/Controller.
 - c. The bank statement is reconciled monthly to the RPM system, and reviewed and approved by the CPA/Controller.
 - d. Disbursements have back up unless they are regularly occurring weekly allowances and rent type payments. The counselors use their judgment for special disbursements resulting from contact with the beneficiary. Small special disbursements may only need a notation in the beneficiary notes, while large ones require an invoice or written request from the beneficiary.
 - e. After each check run the Financial Management Accountant selects 10% of the checks issued to be vouched to back up documentation to verify the distribution is proper.
 - f. Weekly the Accounting Manager selects a random sample of disbursements to determine the distributions are proper. The CPA/Controller reviews the weekly audit.
 - g. Monthly, the Accounting Manager does a sample test of SSA/SSI beneficiaries to verify they are being credited their benefits in a proper and timely manner. The CPA/Controller reviews the monthly audit.
 - h. Annually, the SSA requires a Representative Payee Report (RPR) for each beneficiary. The beneficiary's counselor prepares the SSA required

- RPR. The accounting verifies that the beneficiary was credited for the proper SSA amount and details the expenses paid during the year. The Accounting Manager reviews the accounting for accuracy before it is submitted to SSA.
- i. Blank checks are secured in the CPA/Controller and Accounting Manager's office. Checks are issued sequentially and the monthly bank reconciliation process identifies missing checks, if any.
 - j. Family Services, Inc. maintains a insurance bond of \$5 million to protect beneficiary assets.
4. FSI has established a separate and properly titled bank account for SSA beneficiaries' funds. The account is titled "Family Services, Inc. DBA Family Financial Management Representative Payee for SSA and SSI Beneficiaries. A copy of the statement from the properly titled account is attached.
5. FSI concurs with this finding. FSI did not, and does not intentionally endorse or receive SSA checks for non-representative payee beneficiaries. We immediately contact SSA if we receive unexpected deposits for non-representative payee beneficiaries.

Thank you for the opportunity to respond to your draft report. If you have questions or require clarification please contact us.

/s/
Caprice Atterbury, CPA
Controller

/s/
David A. Geer
Executive Director

Enclosure

Appendix E

OIG Contacts and Staff Acknowledgments

OIG Contacts

Shirley E. Todd, Director, General Management Audit Division (410) 966-9365

Randy Townsley, Audit Manager, (410) 966-1039

Acknowledgments

In addition to the persons named above:

Janet Stein-Pezza, Analyst-in-Charge

Alan Carr, Senior Auditor

Katherine Baker, Auditor

Cheryl Robinson, Writer-Editor

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