

Audit Report

KDC Income Management, a Fee-for-
Service Representative Payee for the
Social Security Administration

A-13-13-13013 / August 2013



MEMORANDUM

The attached final report presents the results of our audit. Our objectives were to determine whether KDC Income Management (1) had effective safeguards over the receipt and disbursement of Social Security benefits, (2) used and accounted for Social Security benefits in accordance with the Agency's policies and procedures, and (3) adequately protected beneficiaries' personally identifiable information.

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.

Bob S. Lawrence

Patrick P. O'Carroll, Jr.

Attachment

cc:

Nancy Martinez, Associate Commissioner for Office of Income Security Programs
Gary S. Hatcher, Senior Advisor for Records Management and Audit Liaison Staff

KDC Income Management, a Fee-for-Service Representative Payee for the Social Security Administration

A-13-13-13013



August 2013

Office of Audit Report Summary

Objectives

To determine whether KDC Income Management (KDC) (1) had effective safeguards over the receipt and disbursement of Social Security benefits, (2) used and accounted for Social Security benefits in accordance with the Social Security Administration's (SSA) policies and procedures, and (3) adequately protected beneficiaries' personally identifiable information.

Background

Some individuals cannot manage or direct the management of their finances because of their youth and/or mental or physical impairments. Congress granted SSA the authority to appoint representative payees to receive and manage these beneficiaries' payments. During our audit period, July 1, 2011 to June 30, 2012, KDC served as representative payee for 227 beneficiaries.

Our Findings

Generally, KDC had effective safeguards over the receipt of Social Security benefits and used those benefits in accordance with SSA's policies and procedures, and adequately protected the beneficiaries' personally identifiable information. However, KDC did not (a) have adequate safeguards over all disbursements, and (b) report address changes to SSA. In addition, KDC had Social Security funds that it could not allocate to specific beneficiaries, and KDC operated as a conduit payee for one beneficiary.

Our Recommendations

We recommend that SSA:

1. Instruct KDC to maintain sufficient documentation to support disbursements and assess KDC's compliance during its next site review.
2. Remind KDC to notify the Agency timely of changes of address and living arrangements and assess KDC's compliance during its next site review.
3. Instruct KDC on how to distribute approximately \$6,500 in Social Security payments to specific beneficiaries.
4. Determine whether a representative payee is necessary if the Agency reinstates the Old-Age, Survivors and Disability Insurance benefits for one beneficiary for whom KDC was operating as a conduit payee.

SSA agreed with our recommendations.

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ABBREVIATIONS

| | |
|-------------|---|
| C.F.R. | Code of Federal Regulations |
| KDC | KDC Income Management |
| OASDI | Old-Age, Survivors and Disability Insurance |
| OIG | Office of the Inspector General |
| POMS | Program Operations Manual System |
| Pub. L. No. | Public Law Number |
| SSA | Social Security Administration |
| SSI | Supplemental Security Income |
| U.S.C. | United States Code |

OBJECTIVES

To determine whether KDC Income Management (KDC) (1) had effective safeguards over the receipt and disbursement of Social Security benefits, (2) used and accounted for Social Security benefits in accordance with the Social Security Administration's (SSA) policies and procedures, and (3) adequately protected beneficiaries' personally identifiable information.

BACKGROUND

Some individuals cannot manage or direct the management of their finances because of their youth and/or mental or physical impairments. Congress granted SSA the authority to appoint representative payees to receive and manage these beneficiaries' payments.¹ A representative payee may be an individual or an organization. SSA selects representative payees for Old-Age, Survivors and Disability Insurance (OASDI)² and/or Supplemental Security Income (SSI)³ beneficiaries⁴ when representative payments would serve the individual's interests.⁵ Representative payees are responsible for managing benefits in the beneficiary's best interests.⁶ See Appendix A for additional representative payee responsibilities.

Founded in 2007,⁷ KDC is a West Virginia-based nonprofit organization that serves as a fee-for-service representative payee. KDC serves as representative payee for Social Security beneficiaries who (a) are required to have a representative payee or (b) do not have someone to handle their finances. In addition, KDC has reported it serves as conservator⁸ for some beneficiaries for which it is representative payee. During our audit period, July 1, 2011 to June 30, 2012, KDC served as representative payee for 227 beneficiaries. Of the 227, we selected a sample of 50 beneficiaries⁹ for review. During our audit, we determined the payee had received approximately \$348,980 in Social Security benefits for the 50 beneficiaries. See Appendix B for the scope and methodology of our review.

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

² The OASDI program provides retirement and disability benefits to qualified individuals and their dependents as well as to survivors of insured workers. *Social Security Act § 201 et seq.*, 42 U.S.C. § 401 et seq.

³ The SSI program provides payments to individuals who have limited income and resources and who are age 65 or older, blind, or disabled. *Social Security Act §1601 et seq.*, 42 U.S.C. § 1381 et seq.

⁴ We use the term "beneficiary" generically in this report to refer to both OASDI beneficiaries and SSI recipients.

⁵ *Social Security Act §§ 205(j)(1) and 1631(a)(2)(A)(ii), 42 U.S.C. §§ 405(j)(1) and 1383(a)(2)(A)(ii). See also, 20 C.F.R. §§ 404.2001 and 416.601.*

⁶ 20 C.F.R. §§ 404.2035(a) and 416.635(a).

⁷ Appalachian Benefits Assistance Corporation was established in 2007. In 2011, the organization began conducting business in West Virginia under the trade name KDC Income Management.

⁸ A conservator is a person appointed by the court who is responsible for managing an individual's estate and financial affairs.

⁹ KDC was representative payee and conservator for one beneficiary in our sample.

RESULTS OF REVIEW

Generally, KDC had effective safeguards over the receipt of Social Security benefits and used those benefits in accordance with SSA's policies and procedures, and adequately protected the beneficiaries' personally identifiable information. However, KDC did not (a) have adequate safeguards over all disbursements or (b) report address changes to SSA. In addition, KDC had Social Security funds that it could not allocate to specific beneficiaries, and KDC operated as a conduit payee¹⁰ for one beneficiary.

Documentation Supporting Disbursements

KDC did not always maintain adequate documentation to support disbursements made from beneficiaries' Social Security payments. In February 2011, an SSA site review¹¹ found the payee did not maintain adequate supporting documentation for all disbursements from beneficiary accounts. In December 2012, we found the payee had continued this practice. We reviewed a sample of 133 expense items and related disbursements and examined the related underlying documentation for reasonableness and authenticity. Of the 133 items we reviewed, KDC retained adequate documentation to support 85 (64 percent) of the disbursements. However, KDC could not provide documentation to support 48 disbursements totaling \$11,931.

Of the 48 disbursements, 19 were for rent payments and payments to a care facility. KDC did not have invoices or lease agreements to support the expenses. These unsupported expenses pertained to 16 beneficiaries and totaled \$5,413. On December 31, 2012, a KDC official provided a corrective action plan indicating the payee would secure rental and care agreements for all current clients.

For the remaining 29 disbursements, totaling \$6,518, the payee issued payment directly to beneficiaries and third parties. The disbursements pertained to 21 beneficiaries. For example, KDC gave the beneficiary \$800 for household expenses; however, KDC did not have receipts for the beneficiary's household-related expenses. In another instance, the payee made a \$750 disbursement to a third party for "Christmas money," but KDC did not have a receipt for the gift(s). See Table 1 for more information.

¹⁰ "A **conduit payee** is a payee who merely signs the check and turns it over to the beneficiary or other person or who cashes the check and turns the full amount over to the beneficiary or other person." SSA, POMS, GN 00608.044 B. (January 29, 1996).

¹¹ *The Social Security Protection Act of 2004* requires that SSA conduct periodic reviews of certain representative payees. Pub. L. No. 108-203 § 102, codified at 42 U.S.C., §§ 405(j) and 1383(a)(2).

Table 1: Disbursements Without Supporting Documentation

| Disbursements | Number of Disbursements | Amount |
|-----------------------|-------------------------|----------------|
| Less Than \$80 | 4 | \$190 |
| Between \$80 to \$200 | 12 | 1,303 |
| Greater Than \$200 | 13 | 5,025 |
| Total | 29 | \$6,518 |

When payees do not retain adequate documentation, there is an increased risk of unauthorized expenditures will not be detected. SSA requires that representative payees keep accurate and complete records to show the amount of Social Security benefits received and how those benefits were used.¹² SSA's guidance provides an example in which a payee withdraws \$100 from the beneficiary's account and buys an \$80 item. The guidance states there must be a receipt for the \$80 and a record reflecting the disposition of the remaining \$20.¹³

KDC did not document all beneficiary expenses because it did not collect receipts for all expenses and did not require rental or care agreements for beneficiaries. As part of the payee's corrective action plan, KDC reported it would improve its documentation of beneficiaries' expenses.

Reporting Changes of Address

KDC did not notify SSA of changes of address for nine beneficiaries. In February 2011, SSA reported its site review found the payee's records had addresses for beneficiaries that differed from addresses in the Agency's records. SSA stated a payee must report changes, such as address and living arrangements, to SSA that may affect the beneficiary's eligibility for Social Security and/or SSI payments. Our analysis of KDC records found it failed to notify SSA about the nine beneficiaries whose addresses changed. The beneficiaries received \$72,208 in Social Security payments during our audit period.

Federal regulations state a representative payee has a responsibility to notify SSA of any event or change in beneficiary circumstances that will affect the amount of benefits an individual receives, their right to receive benefits, or how they receive benefits.¹⁴ Therefore, KDC had a duty to notify SSA of the change in the beneficiaries' addresses. On May 1, 2013, SSA staff stated that KDC provided the Agency with the addresses for the nine beneficiaries.

¹² 20 C.F.R. §§ 404.2065 and 416.665.

¹³ SSA's *Guide for Organizational Representative Payees*, page 16, <http://www.ssa.gov/payee/NewGuide/toc.htm>.

¹⁴ 20 C.F.R. §§ 404.2035(d) and 416.635(d).

Beneficiaries' Social Security Payments

KDC had Social Security payments that it could not allocate to specific beneficiaries. A KDC official acknowledged the payee had Social Security payments in two bank accounts that it could not properly allocate to beneficiaries. As of December 17, 2012, the amounts in the accounts totaled approximately \$6,500.

In February 2011, an Agency site review found the payee had not performed bank reconciliations. *SSA's Best Practices for Maintaining an Effective Representative Payee Accounting System*¹⁵ states, the payee should reconcile ledgers and bank records each month because reconciliations would allow the payee to adjust for any difference in its records. According to a KDC official, bank reconciliations began after it hired a new director in March 2011.

The newly hired director completed bank reconciliations for August 2010 to March 2011.¹⁶ During those reconciliations, the director found two accounts held about \$6,500 in Social Security payments that belonged to beneficiaries. However, KDC staff reported the payee could not determine the portion of the funds in the accounts that belonged to specific beneficiaries.

On December 17, 2012, we discussed the Social Security payments in the two accounts with KDC officials. We subsequently informed SSA staff that the payee would be seeking guidance from the Agency to determine how to distribute about \$6,500 to beneficiaries. As of April 16, 2013, KDC was awaiting guidance from SSA's field office regarding the distribution of funds. On May 1, 2013, SSA staff stated the Agency was determining how those funds should be allocated to the beneficiaries.

Conduit Payee

KDC operated as a conduit representative payee for one beneficiary. SSA policy defines a conduit payee as one that does not exercise control over the funds and cannot accurately account for how the funds are spent.¹⁷ The payee provided one beneficiary about 94 percent of the OASDI benefits he received over a 5-month period. For example, the beneficiary received \$955 in OASDI benefits in October 2011, and KDC provided the beneficiary with \$866 as a personal allowance. During our audit period, KDC directly provided the beneficiary \$4,490 of the \$4,775 OASDI benefits it received from July through November 2011.

¹⁵ SSA's *Best Practices for Maintaining an Effective Representative Payee Accounting System*, Adequate Oversight, <http://www.ssa.gov/payee/best.htm>.

¹⁶ According to a KDC official, the building in which KDC operated experienced a fire in August 2010 that destroyed documentation belonging to the payee.

¹⁷ SSA, POMS, GN00608.044 B. (January 29, 1996).

SSA's policy states, "The existence of a conduit payee may indicate a lack of interest in the beneficiary or may suggest that the beneficiary should be receiving his/her own benefits directly."¹⁸ On March 8, 2013, a KDC official stated the beneficiary wanted to manage his own money; therefore, the payee gave the beneficiary the opportunity to manage the money. The official stated KDC sent the beneficiary money to pay bills, and the beneficiary reported how he used the benefits. The official further stated the beneficiary did well managing his money, but the beneficiary wanted KDC to remain his payee.

As of March 2012, SSA had suspended the beneficiary's Social Security payments because of incarceration.

CONCLUSIONS

Generally, KDC had effective safeguards over the receipt of Social Security benefits and used those benefits in accordance with SSA's policies and procedures, and adequately protected the beneficiaries' personal identifiable information. However, we found KDC did not have adequate safeguards over all disbursements and report address changes to SSA. In addition, KDC had Social Security funds that it could not allocate to specific beneficiaries and KDC operated as a conduit payee for one beneficiary.

RECOMMENDATIONS

We recommend that SSA:

1. Instruct KDC to maintain sufficient documentation to support disbursements and assess KDC's compliance during its next site review.
2. Remind KDC to notify the Agency timely of changes of address and living arrangements and assess KDC's compliance during its next site review.
3. Instruct KDC on how to distribute approximately \$6,500 in Social Security payments to specific beneficiaries.
4. Determine whether a representative payee is necessary if the Agency reinstates the Old-Age, Survivors and Disability Insurance benefits for one beneficiary for whom KDC was operating as a conduit payee.

AGENCY COMMENTS

SSA agreed with our recommendations (see Appendix C).

¹⁸ SSA, POMS, GN 00608.044 A. (January 29, 1996).

APPENDICES

Appendix A – REPRESENTATIVE PAYEE RESPONSIBILITIES

Representative payees are responsible for using benefits to serve the beneficiary's best interests. The responsibilities include the following.¹

- Determine the beneficiary's current needs for day-to-day living and use his/her payments to meet those needs.
- Conserve and invest benefits not needed to meet the beneficiary's current needs.
- Maintain accounting records of how the benefits are received and used.
- Report events to the Social Security Administration (SSA) that may affect the individual's entitlement or benefit payment amount.
- Report any changes in circumstances that would affect their performance as a representative payee.
- Provide SSA an annual Representative Payee Report to account for benefits spent and saved.
- Return any payments to SSA for which the beneficiary is not entitled.
- Return conserved funds to SSA when no longer serving as the representative payee for the beneficiary.
- Be aware of any other income that Supplemental Security Income recipients may have and monitor their conserved funds to ensure they do not exceed resource limits.

¹ 20 C.F.R. §§ 404.2035 and 416.635. See also SSA's *Guide for Organizational Representative Payees*, pages 16 and 48, <http://www.ssa.gov/payee/NewGuide/toc.htm>.

Appendix B – SCOPE AND METHODOLOGY

Our audit covered the period July 1, 2011 through June 30, 2012. 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 Office of the Inspector General and SSA work in the representative payee area.
- Compared and reconciled the payee's list of SSA beneficiaries in KDC Income Management's (KDC) care to a list obtained from SSA's Representative Payee System.
- Determined the effectiveness of KDC's safeguards over the receipt and disbursement of Social Security benefits.
- Reviewed 50 beneficiaries who were in KDC's care during our audit period and performed the following tests.
 - Compared and reconciled benefit amounts received according to KDC's records to benefit amounts paid according to SSA's records.
 - Reviewed KDC's records to determine whether benefits were properly spent on the individual's behalf.
 - Traced a sample of recorded expenses to source documents and examined the underlying documentation for reasonableness and authenticity.
- Determined whether KDC reported any changes or events for its beneficiaries that could affect the amount of, or entitlement to, Old-Age, Survivors and Disability Insurance or Supplemental Security Income payments.
- Interviewed 10 selected beneficiaries to determine whether their basic needs were being met. Of the 10, we also visited the residences of 8 beneficiaries. We did not visit the residences of two beneficiaries but interviewed them over the telephone.
- Reviewed the *Representative Payee Report* (Form SSA-6234) for 30 beneficiaries to determine the completeness and appropriateness of the information provided.
- Reviewed the *Request to be Selected as Payee* (Form SSA-11-BK) for 10 beneficiaries to determine the completeness and appropriateness of the information provided.
- Determined whether the organization was complying with its policies, and those set by SSA, for protecting personally identifiable information.

We conducted our audit in Baltimore, Maryland, and Clarksburg, West Virginia, between October 2012 and April 2013. We tested the data obtained for our audit and determined them to be sufficiently reliable to meet our audit objectives. We conducted this performance audit in accordance with generally accepted 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 C – AGENCY COMMENTS

July 15, 2013

Subject: Signed Draft Report (A-13-13-13013)

The Philadelphia region appreciates the opportunity to offer our feedback on this formal draft of the audit concerning KDC Income Management.

We concur with all four of OIG's findings and recommendations contained within this draft. The Clarksburg, WV Social Security Office has already acted on the first two recommendations. The office instructed KDC to maintain sufficient documentation to support disbursements and to notify SSA timely of changes of address and living arrangements. KDC Income Management will be undergoing a mandatory triennial review early next year. As part of this review, we will ensure that the reviewing team is aware of the audit's recommendations and the status of KDC's compliance with those recommendations. We will also remind KDC of its reporting responsibilities and duties as an organizational payee.

Terry M. Stradtman
Regional Commissioner

Appendix D – MAJOR CONTRIBUTORS

Shirley E. Todd, Director, Evaluation Division

Randy Townsley, Audit Manager

Donna Parris, Auditor-In-Charge

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