

Audit Report

Integrated Life Choices, an
Organizational Representative Payee
for the Social Security Administration

A-07-14-24001 / April 2014



Office of the Inspector General

SOCIAL SECURITY ADMINISTRATION

MEMORANDUM

Date: April 28, 2014

Refer To:

To: Ken Powell
Regional Commissioner
Kansas City

From: Inspector General

Subject: Integrated Life Choices, an Organizational Representative Payee for the Social Security Administration (A-07-14-24001)

The attached final report presents the results of our audit. Our objectives were to determine whether Integrated Life Choices (1) had effective safeguards over the receipt and disbursement of Social Security benefits, (2) used and accounted for Social Security benefits in accordance with Social Security Administration 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.

Beth & Olavell Jr

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

Integrated Life Choices, an Organizational Representative Payee for the Social Security Administration

A-07-14-24001



April 2014

Office of Audit Report Summary

Objective

To determine whether Integrated Life Choices (ILC) (1) had effective safeguards over the receipt and disbursement of Social Security benefits, (2) used and accounted for Social Security benefits in accordance with Social Security Administration (SSA) policies and procedures, and (3) adequately protected personally identifiable information.

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.

Representative payees are responsible for managing benefits in the beneficiaries' best interest.

Our Findings

ILC adequately protected beneficiaries' personally identifiable information. However, ILC did not:

- Have effective safeguards over the receipt and disbursement of Social Security benefits. Specifically, ILC did not have an adequate segregation of duties in its accounting process, maintain complete and accurate ledgers, or maintain receipts supporting all expenditures.
- Use and account for Social Security benefits in accordance with SSA's policies and procedures. Specifically, ILC had inadequate internal controls related to conserved funds and did not obtain SSA's approval regarding trusts held by a nonprofit organization on behalf of several of ILC's beneficiaries.

In addition, ILC did not report to SSA incidents involving the misuse of beneficiaries' funds.

Our Recommendations

We recommend SSA:

1. Ensure ILC establishes effective safeguards over the accounting process including a proper segregation of duties, complete and accurate ledgers, and adequate documentation to support the use of Social Security benefits in the beneficiaries' best interest.
2. Remind ILC to inform SSA when a beneficiary leaves its care, request SSA to stop sending benefits, and return all conserved funds to SSA.
3. Instruct ILC to request SSA's approval for trust accounts established on behalf of SSA beneficiaries and determine whether existing trust accounts comply with SSA policy.
4. Remind ILC to report incidents of possible benefit misuse to SSA immediately upon discovery.

SSA agreed with our recommendations.

TABLE OF CONTENTS

Objective	1
Background	1
Results of Review	1
Safeguards over the Receipt and Disbursement of Benefits	2
Segregation of Duties.....	2
Ledgers to Document Financial Transactions.....	3
Receipts to Support Expenditures	3
Use and Accounting for Benefits.....	4
Conserved Funds.....	4
Trust Accounts	5
Misuse of Beneficiaries' Funds	5
Conclusions.....	6
Recommendations.....	6
Agency Comments.....	7
Appendix A – Representative Payee Responsibilities.....	A-1
Appendix B – Scope and Methodology	B-1
Appendix C – Agency Comments.....	C-1
Appendix D – Major Contributors.....	D-1

ABBREVIATIONS

C.F.R.	Code of Federal Regulations
OASDI	Old-Age, Survivors and Disability Insurance
ILC	Integrated Life Choices
OI	Office of Investigations
OIG	Office of the Inspector General
POMS	Program Operations Manual System
SSA	Social Security Administration
SSI	Supplemental Security Income
U.S.C.	United States Code

OBJECTIVE

The objectives of this review were to determine whether Integrated Life Choices (ILC) (1) had effective safeguards over the receipt and disbursement of Social Security benefits, (2) used and accounted for Social Security benefits in accordance with Social Security Administration (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 or mental and/or physical impairments. Congress granted SSA the authority to appoint representative payees to receive and manage these beneficiaries' payments from the Old-Age, Survivors and Disability Insurance (OASDI) and Supplemental Security Income (SSI) programs.¹ A representative payee may be an individual or an organization. SSA's regulations indicate the Agency will select representative payees for beneficiaries when representative payments would serve the individuals' interests.² Representative payees are responsible for managing benefits in the beneficiaries' best interest.³ See Appendix A for representative payee responsibilities.

ILC is a for-profit organization with multiple locations in Nebraska. The organization provides residential and nonresidential services to the developmentally disabled. SSA's Kansas City Regional Office requested that we audit the ILC agency in Lincoln, Nebraska. Our audit period was May 1, 2012 to April 30, 2013. During this period, ILC received \$422,686 in payments under SSA's OASDI and SSI programs on behalf of 56 beneficiaries. See Appendix B for our scope and methodology.

RESULTS OF REVIEW

We found that ILC adequately protected beneficiaries' personally identifiable information. However, we found the following issues that ILC needed to address.

- ILC did not have effective safeguards over the receipt and disbursement of Social Security benefits. Specifically, ILC did not have an adequate segregation of duties in its accounting process, maintain complete and accurate ledgers, or maintain receipts supporting all expenditures.

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

² 20 C.F.R. §§ 404.2001 and 416.601.

³ 20 C.F.R. §§ 404.2035 and 416.635. We use the term "benefits" to refer to OASDI benefits and SSI payments. Likewise, we use the term "beneficiaries" to refer to OASDI beneficiaries and SSI recipients.

- ILC did not use and account for Social Security benefits in accordance with SSA's policies and procedures. Specifically, ILC had inadequate internal controls related to conserved funds and did not obtain SSA's approval regarding trusts held by a nonprofit organization on behalf of several of ILC's beneficiaries.
- ILC did not report to SSA incidents involving the misuse of beneficiaries' funds.

Safeguards over the Receipt and Disbursement of Benefits

We found that ILC needed to address weaknesses in its internal controls over receipts and disbursements. Specifically, ILC did not have adequate segregation of duties, maintain ledgers that were complete and accurate, or maintain receipts to support all expenditures.

Segregation of Duties

ILC did not have an adequate segregation of employee duties in its accounting process because case managers were allowed to control all key aspects of the financial transactions for their assigned beneficiaries. Specifically, case managers recorded deposits and expenditures in the electronic ledgers, wrote and signed checks to pay beneficiaries' bills and give them their personal allowances, cashed checks, deposited and withdrew money, controlled the check stock, and reconciled the monthly bank statements for their beneficiaries.⁴

One person should not control all key aspects of financial transactions. Adequate segregation of duties and oversight of the accounting functions ensure that key duties and responsibilities are divided among different people to reduce the risk of error, misuse, and fraud.⁵ As a result of ILC's inadequate segregation of duties, a possible misuse of SSA beneficiaries' funds occurred as discussed later in this report.

After this incident, ILC instituted several changes regarding the segregation of duties.

- ILC's financial office will reconcile all bank statements.
- All checks for \$100 or more will be signed by higher-level ILC employees.
- All non-recurring bills will be approved by higher-level ILC employees.
- Blank checks will be stored in a secure location with higher-level employee oversight.
- The new petty cash ledgers will be reviewed monthly, and receipts over \$10 will be included with the cash ledgers and filed in the individual's financial book.

⁴ During the audit period, 15 ILC employees had representative payee responsibilities.

⁵ Government Accountability Office, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1, November 1999, p. 14; SSA, *Best Practices for Maintaining an Effective Representative Payee Accounting System*, "Separation of Employee Duties," <http://www.ssa.gov/payee/best.htm>

Since these changes were being implemented when we were onsite at ILC, it was too early for us to verify the procedures were in place. Furthermore, not all of the weaknesses in the segregation of duties were addressed by these changes. Specifically, case managers continued writing and signing most checks, posting transactions to the accounting ledgers, and depositing and withdrawing funds. Accordingly, ILC needs to further improve its segregation of duties.

Ledgers to Document Financial Transactions

ILC ledgers of beneficiaries' financial transactions were not accurate or complete. Our review of the beneficiaries' ledgers found that deposits

1. lacked sufficient detail to determine the source and amount of funds. SSA benefit deposits were often combined with other income such as earnings, refunds, and other types of benefits;
2. were mislabeled or not labeled at all. For example, many SSA benefit deposits were labeled as employment earnings or earnings checks were labeled as SSA benefit deposits; and
3. were not recorded in the ledgers.

SSA requires that the representative payees' records clearly and accurately reflect all payments made by SSA.⁶ Given the condition of the ledgers, we requested additional documentation from ILC and obtained payment information from a Department of the Treasury database. Based on the additional documentation, we reconciled the discrepancies in ILC's ledgers with the benefit payments ILC received from SSA. ILC corrected the discrepancies in the ledgers.

Receipts to Support Expenditures

Our review of the expenditures for 11 beneficiaries disclosed that ILC had not maintained receipts and other documentation to support all the expenditures.⁷ Specifically, of the \$136,864 expended during the audit period on behalf of the 11 beneficiaries, ILC did not have receipts for \$18,669 (14 percent).⁸

To determine the purpose of the expenditures not supported by receipts, we reviewed the documentation ILC provided such as emails, petty cash logs, bank account statements, check images, and notes from beneficiaries' oversight teams. It appeared the funds were intended for legitimate purchases, such as food, clothing, and personal needs items. Without receipts, we cannot confirm how the funds were actually used. However, nothing came to our attention that

⁶ SSA, *Guide for Organizational Representative Payees*, "Duties of a Representative Payee" and "Developing an Accounting system," www.ssa.gov/payee/NewGuide/toc.htm.

⁷ We selected these beneficiaries because they had a large number of expenditures or a large amount of spending compared to the other beneficiaries.

⁸ We reviewed selected large or unusual expenditures for the remaining 45 beneficiaries and did not identify any material problems except for the misuse reported in the "Other Matters" section of the report.

led us to believe the expenditures were used for anything other than the beneficiaries' needs and personal use.

Of the \$18,669 without supporting documentation, \$15,447 (83 percent) was personal spending money given to the beneficiaries.⁹ On several occasions, about one-third of this personal spending money was given to nine of the beneficiaries in amounts ranging from \$100 to \$500. ILC decided how much money to give each beneficiary for personal spending and the extent to which each beneficiary was responsible for obtaining receipts. When SSA appointed ILC as the beneficiaries' representative payee, SSA had already determined these beneficiaries were incapable of managing or directing the management of their benefits.¹⁰ Consequently, ILC's practices of giving some beneficiaries large sums of money based on its own determinations, as well as not requiring receipts for how the money was expended, did not meet some of the basic responsibilities of SSA's Representative Payment Program.

According to SSA, the representative payee must accurately account for the use of benefits, keep complete and detailed records of how benefits were used to complete annual accounting reports, and make those records available at SSA's request.¹¹ The representative payee should obtain receipts for all expenditures, including the beneficiaries' personal spending money. Maintenance of this documentation is a safeguard the representative payee must have in place for all expenditures, regardless of the monetary value, to show it spent SSA benefits in the beneficiaries' best interest and minimize the risk of fraud and abuse.

Use and Accounting for Benefits

We found that ILC needed to follow SSA policies on conserved funds and seek SSA approval to contribute beneficiaries' funds to trust accounts held by an external organization.

Conserved Funds

We found that the conserved funds of a beneficiary who left ILC during the audit period were not handled properly. ILC gave the new payee two benefit checks totaling \$687, cashed a third benefit check for \$260, and gave the cash to the new payee. ILC did not record the checks in the beneficiary's ledger and did not specify the disposition of the conserved funds. Also, ILC's past practice had been to give conserved funds to the new payee. SSA policy generally requires that the beneficiary's conserved funds be returned to SSA so they can be reissued to the new payee.¹²

⁹ Personal spending money included the beneficiaries' regular personal allowances and any additional discretionary spending money.

¹⁰ SSA, POMS, GN 00502.001.A.3 and A.4 (March 16, 2011).

¹¹ SSA, POMS, GN 00502.113.C.1 and D.3.b (October 13, 2011); see also 20 C.F.R. §§ 404.2065 and 416.665.

¹² On a case-by-case basis, SSA may allow a former payee to transfer funds directly to a new payee or to a capable beneficiary rather than returning them to SSA if it serves the best interest of the beneficiary. SSA, POMS, GN 00603.055.A (January 6, 2010); GN 00605.370. A (August 20, 2010).

In addition, SSA requires that the disposition of conserved funds be documented in the beneficiary's records.

SSA's policies protect the beneficiary's best interest as well as ensure accountability for the beneficiary's funds by both the prior and the new payees. In addition, when a representative payee does not follow SSA's conserved funds policies, the risks of possible misuse and fraud increase. ILC should have immediately notified SSA of the beneficiary's departure and returned the three checks to SSA.

Trust Accounts

We found that ILC transferred \$11,300 in SSA benefits for four beneficiaries¹³ to individual trust accounts without SSA's knowledge and approval. Representative payees are required to inform SSA of trust accounts and receive SSA's approval. SSA evaluates trusts based on the proper use of benefits and, in the case of an SSI recipient, whether the trust may cause ineligibility for SSI benefits.¹⁴ According to SSA, ILC did not seek its approval of the trust accounts.

Misuse of Beneficiaries' Funds

ILC did not report to SSA incidents involving the misuse of beneficiaries' funds. Specific examples follow.

- As a result of ILC's inadequate segregation of duties, a case manager either mismanaged or misused funds totaling \$1,960 for six beneficiaries.¹⁵ In May 2013, during a review of financial records managed by a case manager, ILC identified discrepancies in the accounts of three beneficiaries for whom it served as representative payee and three beneficiaries who received services from ILC but had another payee.¹⁶ ILC found discrepancies in petty cash logs and a lack of receipts for purchases. ILC was unable to determine whether the funds were stolen or mismanaged. After ILC's review, the case manager resigned. ILC reimbursed the beneficiaries and filed a police report. As of the date of our review, the

¹³ Three of the four beneficiaries received OASDI benefits. The fourth beneficiary received SSI payments.

¹⁴ SSA, POMS, GN 00602.001.A.2 (March 5, 2002) and GN 00602.075.D.1 and D.3 (July 5, 2007).

¹⁵ SSA defines misuse as, "... any case in which the representative payee receives payment . . . for the use and benefit of another person and converts such payment, or any part thereof, to a use other than for the use and benefit of such other person."

¹⁶ ILC was the payee for three of the beneficiaries who lost a total of \$740. The other three beneficiaries who had other payees lost a total of \$1,220. The three beneficiaries who had other payees lived in ILC facilities and were employed at an ILC work site. With the permission of the other payees, ILC opened a bank account for each of the three beneficiaries and deposited their paychecks so that the beneficiaries could use the earnings to purchase personal items. Periodically, ILC would withdraw some of their earnings, place the funds in a secured petty cash box, and record the transactions on the individuals' petty cash logs.

police were investigating the matter. However, ILC did not notify SSA of the potential misuse, as required by SSA policy.¹⁷

We reported the incident to SSA, which indicated it would inspect the potential misuse at the conclusion of this audit. Also, we reported the potential misuse to our Office of Investigations (OI), which declined to pursue the case because the matter had been referred to the police department, and the amount of loss was minimal.

- During our review of ILC beneficiaries' ledgers, we found two consecutive withdrawals of \$250 in a beneficiary's ledger with no indication of what was purchased with the funds. Based on information from ILC, it appears an individual not involved with ILC convinced the beneficiary to obtain a \$500 cash advance loan and give the funds to the individual. The beneficiary provided the bank account number to the cash advance loan business to make payment for the \$500 cash advance. Upon discovery of the incident, ILC filed a police report, but did not report the incident to SSA as required. The individual was subsequently prosecuted and convicted of assault.

We reported the incident to SSA and our OI. SSA said it would investigate the misuse at the conclusion of this audit, which will include addressing the issue of reimbursement to the beneficiary. OI declined to pursue the case since the individual was investigated and arrested before OI was notified of the incident.

CONCLUSIONS

ILC adequately protected beneficiaries' personally identifiable information. However, ILC did not have effective safeguards over the receipt and disbursement of Social Security benefits or use and account for Social Security benefits in accordance with SSA's policies and procedures. In addition, ILC did not report to SSA incidents involving the misuse of beneficiaries' funds.

RECOMMENDATIONS

We recommend that SSA:

1. Ensure ILC establishes effective safeguards over the accounting process including a proper segregation of duties, complete and accurate ledgers, and adequate documentation to support the use of Social Security benefits in the beneficiaries' best interest.
2. Remind ILC to inform SSA when a beneficiary leaves its care, request SSA to stop sending benefits, and return all conserved funds to SSA.

¹⁷ 20 C.F.R. §§ 404.2041 and 416.641; SSA, *Guide for Organizational Representative Payees*, "Duties of a Representative Payee" and "Reporting Events to SSA," www.ssa.gov/payee/NewGuide/toc.htm.

3. Instruct ILC to request SSA's approval for trust accounts established on behalf of SSA beneficiaries and determine whether existing trust accounts comply with SSA policy.
4. Remind ILC to report incidents of possible benefit misuse to SSA immediately upon discovery.

AGENCY COMMENTS

SSA agreed with our recommendations. See Appendix C for the full text of SSA's comments. ILC reviewed the draft report and informed us that it did not have any comments.

APPENDICES

Appendix A – REPRESENTATIVE PAYEE RESPONSIBILITIES

Representative payees are responsible for using Social Security benefits to serve the beneficiary's best interests. The responsibilities include, but are not limited to, 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.
- Keep benefits received on the beneficiary's behalf separate from the payee's own funds.
- 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 invested.
- Return any payments to SSA to which the beneficiary is not entitled.
- Return conserved funds to SSA when it is no longer serving as the representative payee for the beneficiary.
- Be aware of other income 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.

Appendix B – SCOPE AND METHODOLOGY

Our audit covered the period May 1, 2012 to April 30, 2013. To accomplish our objectives, we:

- Reviewed applicable Federal laws and regulations as well as Social Security Administration (SSA) policies and procedures pertaining to representative payees.
- Communicated with SSA's Kansas City Regional Office to obtain background information and prior audits regarding Integrated Life Choices (ILC).
- Compared and reconciled the payee's list of SSA beneficiaries in ILC's care to a list we obtained from SSA's Representative Payee System.
- Reviewed ILC's internal controls over the receipt and disbursement of Social Security benefits.
- Performed the following tests for the 56 beneficiaries in the representative payee's care during the audit period.
 - Compared and reconciled benefit amounts received according to ILC's records to benefit amounts paid according to SSA's records.
 - Reviewed ILC's accounting records to determine whether benefits were properly spent or conserved on the individual's behalf.
 - For selected beneficiaries and large or unusual transactions, traced all recorded expenses to available source documents and examined the documentation for reasonableness and authenticity.
- Reconciled bank records and ILC's records for April 2013.
- Interviewed 10 beneficiaries and observed their living conditions.
- Observed three ILC work sites to determine whether the beneficiaries' working conditions were adequate.
- Reviewed the available annual representative payee reports to determine whether ILC properly reported to SSA how the beneficiaries' funds were used.

We conducted our fieldwork for this review in Lincoln, Nebraska, and Kansas City, Missouri, from May to November 2013. We tested the data obtained for our review and determined them to be sufficiently reliable to meet our 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

March 19, 2014

Subject: Signed Draft Report (A-07-14-24001) - Kansas City Response

Thank you for the opportunity to review the draft audit report for *Integrated Life Choices, A Volume Representative Payee for the Social Security Administration*.

The responses to the individual audit recommendations are listed below.

Recommendation 1 – Ensure ILC establishes effective safeguards over the accounting process including a proper segregation of duties, complete and accurate ledgers, and adequate documentation to support the use of Social Security benefits in the beneficiaries' best interest.

- The Area 2 Representative Payee cadre will work with ILC to ensure they have proper safe guards in place, including segregation of duties, accurate ledgers and documentation.

Recommendation 2 – Remind ILC to inform SSA when a beneficiary leaves its care, request SSA to stop sending benefits, and return all conserved funds to SSA.

- The Area 2 Representative Payee cadre will work with ILC to ensure they have a plan in place to contact SSA when a beneficiary leaves their care and to return all conserved funds to SSA.

Recommendation 3 - Instruct ILC to request SSA's approval for trust accounts established on behalf of SSA beneficiaries and determine whether existing trust accounts comply with SSA policy.

- The Area 2 Representative Payee cadre will assist ILC in developing a process to notify SSA when a trust will be established for a beneficiary.

Recommendation 4 - Remind ILC to report incidents of possible benefit misuse to SSA immediately upon discovery.

- The Area 2 Representative Payee cadre will educate ILC to ensure they understand that all allegations of misuse or theft must be immediately reported to SSA.

If you have any questions, please contact me at 816-936-5700. If members of your staff need additional information or assistance, they may contact Shelli Reicks, Center for Programs Support, at 866-771-7736 ext. 28003, (TSRP 3162-328003).

Ken Powell

Appendix D – MAJOR CONTRIBUTORS

Mark Bailey, Director, Kansas City Audit Division

Shannon Agee, Audit Manager

Carol Cockrell, Evaluator

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