



SOCIAL SECURITY

MEMORANDUM

Date: June 20, 2003

Refer To:

To: Peter D. Spencer
Regional Commissioner
San Francisco

From: Assistant Inspector General
for Audit

Subject: Sierra Regional Center – An Organizational Representative Payee for the Social Security Administration (A-09-03-23023)

Attached is a copy of our final report. The objectives of our review were to determine whether the Sierra Regional Center (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 at (410) 965-9700.



Steven L. Schaeffer

Attachment

cc:
Fritz Streckewald
JoEllen Felice
Candace Skurnik

**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SIERRA REGIONAL CENTER – AN
ORGANIZATIONAL REPRESENTATIVE
PAYEE FOR THE SOCIAL
SECURITY ADMINISTRATION**

June 2003

A-09-03-23023

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 the Sierra Regional Center (SRC) (1) had effective safeguards over the receipt and disbursement of Social Security benefits and (2) ensured Social Security benefits were used and accounted for in accordance with the Social Security Administration's (SSA) policies and procedures.

BACKGROUND

Some individuals cannot manage or direct the management of their finances because of their youth or mental and/or physical impairments. Congress granted SSA the authority to appoint representative payees (Rep Payee) to receive and manage these beneficiaries' payments.¹ A Rep Payee may be an individual or an organization. SSA selects Rep Payees for Old-Age, Survivors and Disability Insurance beneficiaries or Supplemental Security Income recipients when representative payments would serve the individual's interests. Rep Payees are responsible for using benefits in the beneficiary's best interests.

SRC is a State mental institution that provides services to individuals with mental retardation and related conditions. SRC is an organizational Rep Payee located in Sparks, Nevada. As a Rep Payee, SRC provides services for individuals living within the institution. SRC also enters into contractual agreements with care providers for the daily care of individuals living outside the institution.

RESULTS OF REVIEW

Generally, SRC (1) had effective safeguards over the receipt and disbursement of Social Security benefits and (2) ensured that Social Security benefits were used and accounted for in accordance with SSA's policies and procedures. However, we identified three areas where SRC could improve its performance as a Rep Payee. SRC neither returned conserved funds in a timely manner nor maintained supporting documentation for all expenditures. In addition, SRC did not ensure beneficiaries' earnings were properly reported.

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.

RECOMMENDATIONS

We recommend that SSA direct SRC to (1) return conserved funds to the new Rep Payee or SSA for individuals no longer in its care; (2) maintain supporting documentation for the expenditures of beneficiaries who live outside the institution; and (3) strengthen its procedures for reporting the earnings of its beneficiaries.

AGENCY COMMENTS

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

REP PAYEE COMMENTS

SRC agreed with all of our recommendations. The full text of SRC's comments is included in Appendix B.

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Acronyms

FO	Field Office
OASDI	Old-Age, Survivors and Disability Insurance
POMS	Program Operations Manual System
Rep Payee	Representative Payee
RPS	Representative Payee System
SLA	Supported Living Arrangement
SRC	Sierra Regional Center
SSA	Social Security Administration
SSI	Supplemental Security Income

Introduction

OBJECTIVE

Our objectives were to determine whether the Sierra Regional Center (SRC) (1) had effective safeguards over the receipt and disbursement of Social Security benefits and (2) ensured Social Security benefits were used and accounted for in accordance with the Social Security Administration's (SSA) policies and procedures.

BACKGROUND

Some individuals cannot manage or direct the management of their finances because of their youth or mental and/or physical impairments. Congress granted SSA the authority to appoint representative payees (Rep Payee) to receive and manage these beneficiaries' and recipients' benefit payments.² A Rep Payee may be an individual or an organization. SSA selects Rep Payees for Old-Age, Survivors and Disability Insurance (OASDI) beneficiaries or Supplemental Security Income (SSI) recipients when representative payments would serve the individual's interest.

Rep Payees are responsible for using benefits to serve the beneficiary's best interests. Their duties include:³

- 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; and
- reporting any changes in circumstances that would affect their performance as a Rep Payee.

About 7.6 million individuals have Rep Payees—approximately 4.5 million are OASDI beneficiaries, 2.3 million are SSI recipients, and 800,000 are entitled to both OASDI and SSI. The following chart reflects the types of Rep Payees and the number of individuals they serve.

² 42 U.S.C. §§ 405(j) and 1383(a)(2).

³ Id.; 20 C.F.R. Part 404, Subpart U, and Part 416, Subpart F.

Type of Rep Payee	Number of Rep Payees	Number of Individuals Served
Individual Payees: Parents, Spouses, Adult Children, Relatives, and Others	5,333,200	6,685,100
Organizational Payees: State Institutions, Local Governments, and Others	41,500	807,400
Organizational Payees: Fee-for-Service	900	104,200
Total	5,375,600	7,596,700

Source: Master Representative Payee File as of January 2003.

SRC is a State mental institution that provides services to individuals with mental retardation and related conditions. SRC is an organizational Rep Payee located in Sparks, Nevada. As a Rep Payee, SRC provides services for individuals living within the institution. SRC also enters into contractual agreements with care providers for the daily care of individuals living outside the institution. These contracts are referred to as supported living arrangements (SLA). Although SRC contracts with care providers for individuals living outside the institution, it remains the Rep Payee for all SSA beneficiaries.

From May 1, 2001 to April 30, 2002, SRC received \$383,669 in Social Security benefits on behalf of 90 beneficiaries. As a State mental institution, SRC is exempt from providing SSA with an annual *Representative Payee Report* accounting for how benefits were spent and invested. Instead, SSA is required to perform an on-site review every 3 years.⁴ The SSA field office (FO) in Reno, Nevada, conducted on-site reviews of SRC in September 2001 and April 2002.

SCOPE AND METHODOLOGY

Our audit covered the period May 1, 2001 through April 30, 2002. To accomplish our objectives, we:

- Reviewed the Social Security Act and SSA policies and procedures pertaining to Rep Payees.
- Contacted SSA regional office and FO staffs to obtain background information about the Rep Payee's performance.
- Obtained from SSA's Representative Payee System (RPS) a list of individuals who were in the Rep Payee's care as of April 30, 2002 or who left the Rep Payee's care after May 1, 2001.

⁴ Program Operations Manual System (POMS), section GN 00605.001 and GN 00605.500.

- Obtained from the Rep Payee a list of individuals who were in its care and had received SSA funds as of April 30, 2002 or who left its care after May 1, 2001.
- Compared and reconciled the RPS list to the Rep Payee's list to identify the population of SSA beneficiaries who were in the Rep Payee's care from May 1, 2001 to April 30, 2002.
- Reviewed the Rep Payee's internal controls over the receipt and disbursement of OASDI benefits and SSI payments.
- Performed the following tests for all beneficiaries.
 - Compared and reconciled benefit amounts received according to the Rep Payee's records to benefit amounts paid according to SSA's records.
 - Reviewed the Rep Payee's accounting records to determine whether benefits were properly spent or conserved on the individual's behalf.
- Traced a sample of recorded expenses to source documents and examined the underlying documentation for reasonableness and authenticity.
- Interviewed a sample of beneficiaries to determine whether their basic needs were being met.

We performed our field work between August and December 2002 in Sparks, Nevada; Reno, Nevada; and Richmond, California. We conducted our audit in accordance with generally accepted government auditing standards.

Results of Review

Our audit disclosed that SRC generally (1) had effective safeguards over the receipt and disbursement of Social Security benefits and (2) ensured that Social Security benefits were used and accounted for in accordance with SSA's policies and procedures. However, we identified three areas where SRC could improve its performance as a Rep Payee. SRC neither returned conserved funds in a timely manner nor maintained supporting documentation for all expenditures. In addition, SRC did not ensure beneficiaries' earnings were properly reported.

CONSERVED FUNDS NOT RETURNED TIMELY

SRC did not return conserved funds timely for beneficiaries who were no longer in its care. This occurred because SRC did not have procedures in place to identify conserved funds in its possession after a change in Rep Payee. Instead, SRC relied on demand letters from SSA or new Rep Payees before initiating action to return the conserved funds. As a result, three beneficiaries did not receive a total of \$1,399 in conserved funds to which they were entitled.

SSA's procedures require that a Rep Payee who has a beneficiary's conserved or invested funds must return the funds to SSA or, as directed, to a successor Payee or beneficiary in direct payment.⁵ In addition, SSA's *Guide for Organizational Rep Payees* requires that such Payees return any conserved funds if they no longer serve as Rep Payee for the beneficiary.⁶

As depicted in the table below, SRC held about \$1,399 for three individuals who had been assigned to new Rep Payees. SRC was unaware these conserved funds were in its possession. As of March 2003, SRC held the conserved funds for an average of 16.3 months after the individuals were no longer in its care. Therefore, these individuals could not use the conserved funds for personal needs.

⁵ POMS, section GN 00603.055.

⁶ Social Security, *Representative Payment Program, Guide for Organizational Representative Payees*, September 2001, page 9.

SRC Beneficiary Number	Date Beneficiary Left SRC's Care	Conserved Funds	Number of Months Held by SRC
00221	February 2002	\$537.43	13
00893	July 2001	\$308.33	20
01226	November 2001	\$552.88	16
Total		\$1,398.64	

Source: SRC Resident Trust Fund History as of March 2003.

SUPPORTING DOCUMENTATION FOR EXPENDITURES

SRC needs to improve its documentation to support expenditures from conserved funds for beneficiaries who lived outside the institution. We found that SRC did not ensure that care providers for these individuals maintained detailed receipts for all expenditures. As a result, SSA did not have reasonable assurance that conserved fund expenditures were used to meet the beneficiary's needs.

SSA's procedures require that Rep Payees use the benefits they receive to meet the beneficiary's needs and best interests. Rep Payees are responsible for keeping records and reporting on the use of benefits.⁷ In addition, SSA's *Guide for Organizational Rep Payees* requires that such Payees keep written records of all payments received from SSA and how they are spent and/or saved.⁸ SRC also enters into SLA contracts with its care providers, which state that receipts must be retained for all expenditures.

From May 1, 2001 to April 30, 2002, SRC served as Rep Payee for 90 beneficiaries, of whom 38 lived outside the institution. SRC received the Social Security benefits for these individuals and issued a monthly check to their care providers to pay for room and board. For individuals with conserved funds, SRC periodically issued a check to the care providers to purchase specific items for the beneficiaries.

For 16 beneficiaries who lived outside the institution, we selected 34 payments to determine the adequacy of support for expenditures from conserved funds. Our review disclosed that 11 (32.4 percent) of the 34 payments were not properly supported. For example, SRC issued a \$500 check to a care provider to purchase clothes for a beneficiary. However, neither SRC nor the care provider retained documentation to support the expenditure. As a result, we were unable to substantiate whether these funds were used for their intended purpose.

⁷ POMS, section GN 00605.001.

⁸ Social Security, *Representative Payment Program, Guide for Organizational Representative Payees*, September 2001, page 8.

REPORTING OF EARNINGS FOR BENEFICIARIES

SRC did not always report earnings for the beneficiaries in its care. This occurred, in part, because of miscommunication between the FO and SRC. In addition, SRC did not submit pay slips or other evidence of wages to SSA on a recurring basis. Without a reliable wage reporting process, SSA may incur overpayments resulting from unreported or misreported earnings.

SSA's procedures require that Rep Payees report any changes to SSA that may affect the individual's entitlement or benefit payment amount.⁹ In addition, SSA's *Guide for Organizational Rep Payees* requires that such Payees report any changes or events that could affect the beneficiary's eligibility for benefits or payment amount, such as changes in income (for example, wages or pensions).¹⁰

From May 1, 2001 to April 30, 2002, SRC served as Rep Payee for 90 beneficiaries, of whom 31 received earnings from outside employment. However, we found that SRC did not always provide SSA with pay slips or other acceptable evidence of wages for the beneficiaries in its care. We encourage SSA to work with SRC to establish a reliable wage reporting process for its beneficiaries. Such a process should ensure that all earnings are reported in a timely and accurate manner.

⁹ POMS, section GN 00502.113.

¹⁰ Social Security, *Representative Payment Program, Guide for Organizational Representative Payees*, September 2001, page 8.

Conclusions and Recommendations

Generally, SRC (1) had effective safeguards over the receipt and disbursement of Social Security benefits and (2) ensured that Social Security benefits were used and accounted for in accordance with SSA's policies and procedures. However, SRC should return conserved funds in a timely manner and maintain supporting documentation for all expenditures. In addition, SRC should ensure beneficiaries' earnings are properly reported. We recommend that SSA:

1. Direct SRC to return conserved funds to the new Rep Payee or SSA for individuals no longer in its care.
2. Direct SRC to maintain supporting documentation for the expenditures of beneficiaries who live outside the institution.
3. Work with SRC to strengthen its procedures for reporting the earnings of its beneficiaries.

AGENCY COMMENTS

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

REP PAYEE COMMENTS

SRC agreed with all of our recommendations. The full text of SRC's comments is included in Appendix B.

Other Matters

ACCOUNTING FOR SOCIAL SECURITY BENEFITS

From May 1, 2001 to April 30, 2002, SRC received \$383,669 in Social Security benefits on behalf of 90 beneficiaries. We found that SRC inadvertently posted two benefit payments to the incorrect beneficiary. These errors went undetected because SRC did not periodically review the detailed account balances for its beneficiaries to identify potential errors and inconsistencies. As a result, two beneficiaries did not receive a total of \$60 in benefit payments to which they were entitled. SRC agreed and adjusted its accounting records during our audit. Therefore, we do not have any further recommendations.

SSA's procedures require that Rep Payees maintain adequate records of how benefits are received and used for each beneficiary.¹¹ In addition, SSA's *Guide for Organizational Rep Payees* requires that such Payees establish an accounting system to track how much money was received, how much money was spent, and the balance saved for each beneficiary.¹²

¹¹ POMS, section GN 00502.113.

¹² Social Security, *Representative Payment Program, Guide for Organizational Representative Payees*, September 2001, page 27.

Appendices

Appendix A

Agency Comments

SOCIAL SECURITY ADMINISTRATION

Refer to: S2D9532 Memorandum

Date: June 5, 2003

From: Peter D. Spencer
Regional Commissioner, San Francisco

Subject: Audit of the Sierra Regional Center (SRC) in Sparks, Nevada--Reply

To: Steven L. Schaeffer
Assistant Inspector General for Audit

We appreciate the audit of the Sierra Regional Center (SRC) in Sparks, Nevada that your staff performed. Our field office (FO) had difficulty in discerning the level of SRC's compliance with the representative payee program and your staff's assistance was most helpful in clarifying the facts in this case.

We agree with all three of the recommendations mentioned in your report and will have the Reno FO follow-up with SRC to insure that 1) all conserved funds for individuals no longer in the care of the payee are returned to SSA; 2) documentation of expenditures for beneficiaries living outside the institution is maintained; and 3) beneficiaries earnings are reported to SSA timely and accurately.

Thank you for your assistance in resolving what initially appeared to be a more serious problem.

Peter D. Spencer

Peter D. Spencer
Regional Commissioner

Appendix B

Representative Payee Comments

STATE OF NEVADA

DIVISION OF MENTAL HEALTH AND DEVELOPMENTAL SERVICES

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605 South 21st Street
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Stephen L. Schaeffer
Assistant Inspector General for Audit
Social Security Administration
Baltimore, MD 21235-0001

Dear Mr. Schaeffer,

I have reviewed your draft report of the audit of the Sierra Regional Center Client Trust Fund and agree with the your findings in principal.

It should be noted that the State of Nevada has reduced institutional beds at Sierra Regional Center from 90 to 40 by integrating people into community residential supports.

The 38 beneficiaries mentioned in your report live with families, as compared to 250 people cared for by incorporated providers under contract with Sierra Regional Center. The incorporated providers become representative payee while the families do not.
Sierra Regional Center will work with these families to strengthen the keeping of receipts.

Sierra Regional Center is not unaware of conserved funds but the internal controls in place in the accounting office require service coordinators to request funds be forwarded. Sierra Regional Center will strengthen procedures to notify the service coordinators of conserved funds.

SUPPORTING NEVADANS IN FULL CITIZENSHIP

For the people with earnings, Sierra Regional Center has been informed by Becky Archer of the local Social Security office that she has made an arrangement with employers for direct reporting of wages to the local office. As you might imagine it is not a sure thing that individual people will always bring home pay stubs and these pay stubs be conserved by every family. Sierra Regional Center has for the last 20 years forwarded earning reports from employers to the local office but the reports are sometimes returned unopened.

Your auditors were helpful and courteous and expressed complimentary opinions about the services provided by Sierra Regional Center.

Sincerely,

/s/

Greg Wood, Administrative Services Officer

SUPPORTING NEVADANS IN FULL CITIZENSHIP

Appendix C

OIG Contacts and Staff Acknowledgments

OIG Contacts

Bill Fernandez, Director, Western Audit Division, (510) 970-1739

Jack H. Trudel, Deputy Director, (510) 970-1733

Acknowledgments

In addition to the persons named above:

Jimmie R. Harris, Senior Auditor

Regina D. Finley, Auditor

Brennan Kraje, Statistician, Policy, Planning and Technical Services

Kimberly Beauchamp, Writer-Editor, Policy, Planning and Technical Services

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The Office of Audit (OA) conducts comprehensive financial and performance audits of the Social Security Administration's (SSA) programs and makes recommendations to ensure that program objectives are achieved effectively and efficiently. Financial audits, required by the Chief Financial Officers' Act of 1990, assess whether SSA's financial statements fairly present the Agency's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs. OA also conducts short-term management and program evaluations focused on issues of concern to SSA, Congress, and the general public. Evaluations often focus on identifying and recommending ways to prevent and minimize program fraud and inefficiency, rather than detecting problems after they occur.

Office of Executive Operations

The Office of Executive Operations (OEO) supports the Office of the Inspector General (OIG) by providing information resource management; systems security; and the coordination of budget, procurement, telecommunications, facilities and equipment, and human resources. In addition, this office is the focal point for the OIG's strategic planning function and the development and implementation of performance measures required by the *Government Performance and Results Act*. OEO is also responsible for performing internal reviews to ensure that OIG offices nationwide hold themselves to the same rigorous standards that we expect from SSA, as well as conducting investigations of OIG employees, when necessary. Finally, OEO administers OIG's public affairs, media, and interagency activities, coordinates responses to Congressional requests for information, and also communicates OIG's planned and current activities and their results to the Commissioner and Congress.

Office of Investigations

The Office of Investigations (OI) conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement of SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, physicians, interpreters, representative payees, third parties, and by SSA employees in the performance of their duties. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Counsel to the Inspector General

The Counsel to the Inspector General provides legal advice and counsel to the Inspector General on various matters, including: 1) statutes, regulations, legislation, and policy directives governing the administration of SSA's programs; 2) investigative procedures and techniques; and 3) legal implications and conclusions to be drawn from audit and investigative material produced by the OIG. The Counsel's office also administers the civil monetary penalty program.