
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**THE EFFECTIVENESS OF THE
SOCIAL SECURITY
ADMINISTRATION'S CONTROLS
OVER TITLE II
UNNEGOTIATED CHECKS**

September 2005 A-02-05-15079

AUDIT REPORT



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SOCIAL SECURITY

MEMORANDUM

Date: September 19, 2005

Refer To:

To: The Commissioner

From: Inspector General

Subject: The Effectiveness of the Social Security Administration's Controls over Title II
Unnegotiated Checks (A-02-05-15079)

OBJECTIVE

Our objective was to evaluate the effectiveness of the Social Security Administration's (SSA) policies and procedures for addressing Title II unnegotiated checks

BACKGROUND

Public Law 100-86 states that the United States Department of the Treasury (Treasury) is not required to pay a Treasury check unless it is negotiated to a financial institution within 12 months after the date the check is issued.¹ The law applies to Treasury checks paid on behalf of SSA to its beneficiaries.² Social Security benefit payments made via a Treasury check that have not been presented for payment within 12 months from the date of issuance are voided and Treasury notifies SSA that the check has not been received or presented for payment. Once voided, Public Law 100-86 requires that the amount of the check be credited back to the fund account that was initially charged for the payment.

Public Law 100-86 does not define steps that an agency must take once Treasury notifies it that it has voided a check. SSA, however, developed its own policy to address this situation. Once SSA is notified by Treasury that a check was not negotiated within 12 months of issuance, SSA posts a limited payability alert to the corresponding beneficiary's (or representative payee's) payment history in the 15th month past the check's issue date and notifies the beneficiary through the mail that the check has not been presented for payment. SSA, in its mail notification, asks the beneficiary to confirm whether the check was received and requests that the check be returned to SSA if the beneficiary still has it. SSA will re-issue a check if the beneficiary advises SSA that it was not received or there was some other problem causing the

¹ Act of Aug. 10, 1987, Pub. L. No. 100-86, 101 Stat. 658 (codified as amended at 31 U.S.C. § 3334).

² This law only applies to checks. It does not affect direct deposit electronic funds transfers.

check not to be cashed (for example, it was destroyed, lost or stolen.) If the beneficiary does not contact SSA, no additional follow-up actions are taken.

SSA's Office of Financial Policy and Operations previously conducted special studies to determine why some beneficiaries do not negotiate their checks. In February 2003, the Agency began the New York Unnegotiated Check Study (New York Study). It conducted a computer analysis to identify Title II beneficiaries in the New York region who had not cashed 10 or more checks between January 1, 1997 and December 31, 2001. This analysis identified 368 such beneficiaries. Staff in SSA's New York region, with the support of the Office of the Inspector General's (OIG) Office of Investigations (OI), contacted the beneficiaries to determine why they had not negotiated multiple checks.

The New York Study concluded that the beneficiaries did not cash their checks because they were unaware of the limited payability of their benefit checks; refused to cash their checks; did not receive their checks due to address changes; were physically and/or mentally incapacitated and needed a representative payee to properly handle benefits; or had died and SSA was not notified of the death. Additionally, fraud was suspected in four cases and these were referred for further review and action. See Appendix D for the specific results of the New York Study.

The New York Study results led SSA to conclude that other regions may have had similar issues with unnegotiated checks. In April 2003, SSA's Division of Systems Security and Program Integrity performed additional data analyses for the remaining regions for beneficiaries with 10 or more unnegotiated checks since January 1, 1999 and 871 beneficiaries were identified. Staff in the other regions found that the reasons the beneficiaries did not cash their checks were similar to those identified through the New York Study. See Appendix E for the specific results of the National Unnegotiated Check System Match (National System Match).

RESULTS OF REVIEW

SSA was in adherence with Public Law 100-86, and its policies related to unnegotiated checks. Further, SSA studies of unnegotiated checks indicate there are opportunities to improve the level of service provided to beneficiaries who have not negotiated multiple checks. Previous SSA efforts found that some of the causes related to beneficiaries not negotiating their checks could be addressed through personal contact with the beneficiary. For example, the National System Match found that 13 percent of those contacted were in need of a representative payee. Additionally, initiating personal contact with beneficiaries who had not negotiated multiple checks could identify ineligible beneficiaries. In the National Systems Match, 19 percent of the beneficiaries reviewed had their benefits suspended and 8 percent were referred for a disability investigation or to the OIG for further investigation.

UNNEGOTIATED CHECKS

SSA's policies require the Agency to send a notice to beneficiaries who do not negotiate their checks. The policies do not require follow-up inquiries or contact with beneficiaries who have not negotiated one or more checks, and who have not responded to SSA's mailing inquiring about the unnegotiated checks. The responsibility rests with the beneficiary to respond to the one notice SSA sends once the Agency is notified by Treasury that a check has not been cashed 12 months past the issuance date.

The results of the New York Study and National System Match found that some of the beneficiaries who did not negotiate their checks were in need of representative payees. For example, the New York Study found that over 17 percent of the 368 beneficiaries it attempted to contact were in need of a representative payee. Similarly, the National System Match found that 13 percent of the 1,239 individuals it attempted to contact were in need of a representative payee.³ A beneficiary who needs a representative payee may not be in a position to respond to the Agency's notice inquiring about the unnegotiated check.

Unnegotiated checks may also be an indicator of other types of problems that SSA has not identified. For example, 19 percent of the beneficiaries reviewed in the National System Match had their benefits suspended. In addition, 8 percent of the beneficiaries in the National System Match were found to be deceased and another 8 percent were referred for a disability investigation or to the OIG for further investigation.

UPDATED ANALYSIS OF UNNEGOTIATED CHECKS

Our review identified 4,317 beneficiaries who did not negotiate 10 or more checks from October 1998 through September 2003. The 4,317 beneficiaries had not negotiated 86,673 checks worth approximately \$50.8 million. Sixty-five of these beneficiaries had 60 or more uncashed checks during the 5-year period—totaling \$2,083,162.

We examined 130 of the 4317 cases with the most unnegotiated checks that were also part of SSA's New York Study and National System Match to determine their status. For the 130 cases, we identified 6,682 unnegotiated checks worth \$4,687,768 from October 1998 to September 2003. It appears that SSA's interventions helped to rectify 112 of the cases since these beneficiaries did not have unnegotiated checks after the time SSA staff initiated contact with them. We also completed a wider examination of 18 of the 130 cases (14 percent) where we found that corrective action had not been taken after SSA initiated contact with the beneficiaries. We determined how many unnegotiated checks occurred for these 18 cases from October 1988 to December 2003. In all, the 18 beneficiaries did not negotiate 1,255 checks worth a total of \$734,248 in that time frame. All 18 beneficiaries continued to have

³ The results for the 1,239 cases within the National System Match include the 368 cases completed during the New York Study.

unnegotiated checks through December 31, 2003. The following are examples of the 18 cases.

- A 92 year-old beneficiary's record indicated \$118,163.80 in unnegotiated checks dating as far back as July 1989, with a total of 178 unnegotiated payments. At the close of our review, we found that the uncashed checks were continuing into the 16th consecutive year.
- A 77-year-old beneficiary's record indicated \$59,016 in unnegotiated checks dating as far back as October 1994, with a total of 113 unnegotiated checks. At the close of our review, we found that the uncashed checks were continuing into the 10th consecutive year.

CONCLUSION AND RECOMMENDATIONS

SSA could take further steps to better serve beneficiaries who continually fail to negotiate their benefit checks. Multiple unnegotiated checks can signal a problem, such as a need for a representative payee. SSA's limited contact via the mail for beneficiaries with unnegotiated checks may not identify beneficiaries with a higher need for service. To ensure that unnegotiated checks are being effectively resolved for beneficiaries, we recommend that SSA:

1. Review and take appropriate action to address the 18 cases we identified where unnegotiated checks continue.
2. Develop policy requiring staff outreach to beneficiaries who repeatedly do not negotiate their checks or respond to SSA's related mailings to determine their service needs.

AGENCY COMMENTS

The Agency agreed in part with our first recommendation and disagreed with our second recommendation. In regards to the first recommendation, the Agency stated that it would re-review the 18 cases we identified, with the caveat that it will not take further action on cases where regions have already made contact and the beneficiary refuses to negotiate his or her check. In response to our second recommendation, the Agency stated that a formal policy is not necessary. The Agency noted that it has already taken action to reach out to beneficiaries that do not negotiate their checks through its special studies.

Additionally, it noted that outreach efforts may pose a security risk, since those not negotiating checks may be doing so because of philosophical opposition to the Government and, if contacted, could pose a danger to SSA employees. The full text of SSA's comments may be found in Appendix F.

OIG RESPONSE

We appreciate SSA's previous efforts to identify beneficiaries that do not negotiate their checks. Additionally, we appreciate SSA's efforts to re-review the 18 cases we highlighted in our report. Based on our review of the beneficiaries records within SSA's systems and the information the Agency provided to us on these 18 cases, we did not find any evidence that corrective action was taken. We understand that there may be some beneficiaries that are capable of managing their finances, but still choose not to negotiate their checks.

With respect to our second recommendation, we believe that a formal policy is necessary to determine if beneficiaries who do not negotiate their checks are in need of additional service. SSA's special studies have shown that multiple unnegotiated checks can be an indicator of the need for a representative payee or that their checks should be reissued. In two examples from the New York study that are described in Appendix D, SSA staff found beneficiaries "in rather tragic circumstances," where the need for representative payees was great. The additional outreach conducted, as part of the special studies, also led to fraud referrals and benefit suspension due to the death or inability to locate beneficiaries. We share the agencies concerns for the safety of its employees. The initial outreach effort could be completed by telephone. We would support a staff member's determination after an initial contact that further contact would not be prudent due to security concerns.



Patrick P. O'Carroll, Jr.

Appendices

APPENDIX A – Acronyms

APPENDIX B – Scope and Methodology

APPENDIX C – Flowchart of the Title II Unnegotiated Payment Process

APPENDIX D – Results of the New York Unnegotiated Check Study

APPENDIX E – Results of the National Unnegotiated Check System Match

APPENDIX F – Agency Comments

APPENDIX G – OIG Contacts and Staff Acknowledgments

Appendix A

Acronyms

| | |
|----------|--|
| GLPSC | Great Lakes Program Service Center |
| LP | Limited Payability |
| MBR | Master Beneficiary Record |
| MDW | Modernized Development Worksheet |
| OI | Office of Investigations |
| OIG | Office of the Inspector General |
| PC | Payment Center |
| PHUS | Payment History Update System |
| POMS | Program Operations Manual System |
| PSC | Program Service Center |
| REACT | Returned Check Action Program |
| RPS | Representative Payee System |
| SM | Systems and Methods |
| SSA | Social Security Administration |
| SSN | Social Security Number |
| Treasury | United States Department of the Treasury |

Scope and Methodology

Our objective was to evaluate the effectiveness of the Social Security Administration's (SSA) policies and procedures for addressing Title II unnegotiated checks. To meet this objective, we reviewed Title II unnegotiated checks recorded in Fiscal Years 1999 through 2003. We obtained a data extract of Title II unnegotiated checks for 4,317 beneficiaries with 10 or more uncashed checks within those fiscal years. We performed a reliability review to confirm the validity of the data within the extract. We compared critical data fields in the data extract to the corresponding source data in the Payment History Update System.

We also completed the following steps to meet our objective.

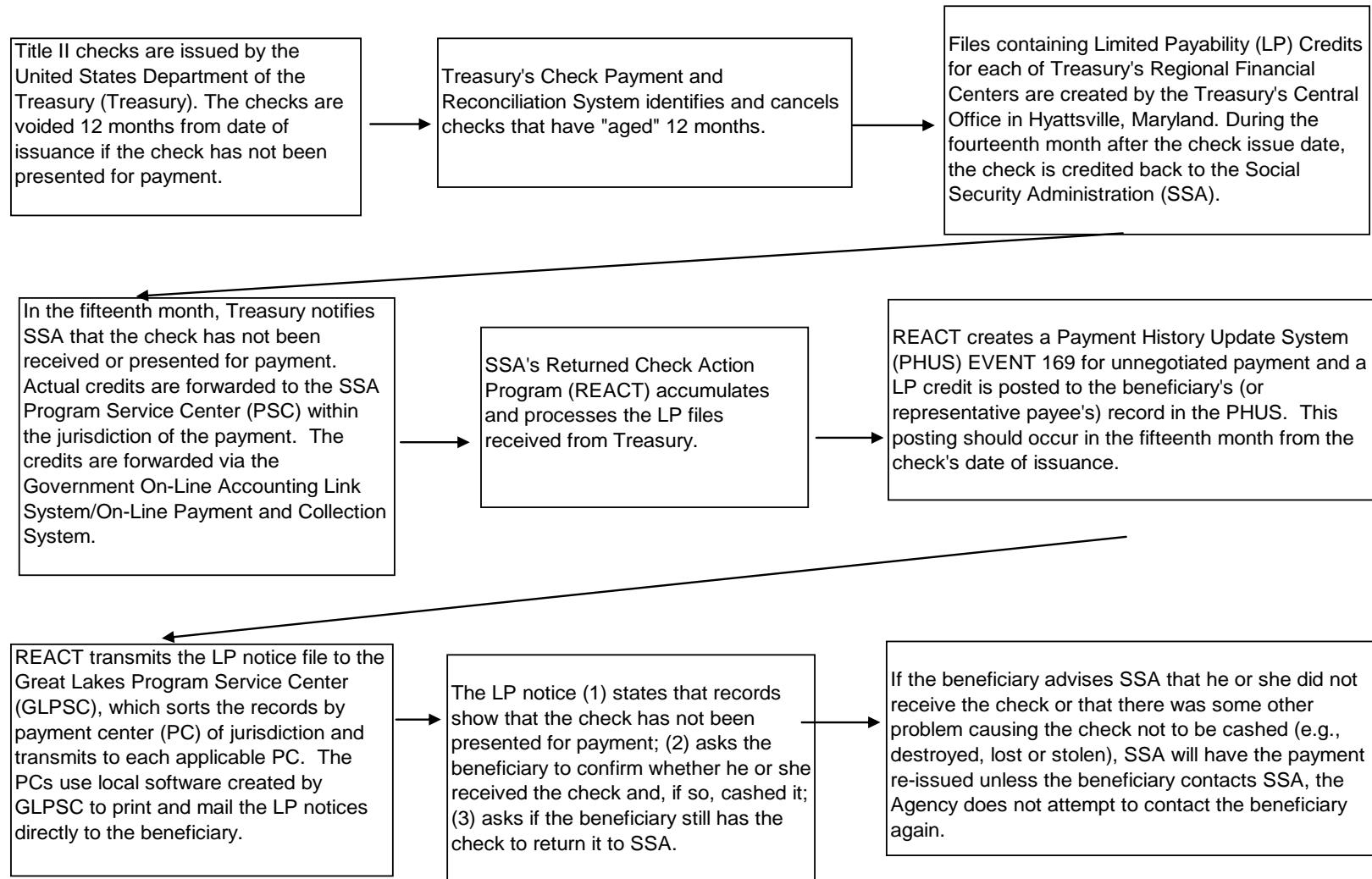
- Reviewed SSA policies and procedures for addressing Title II unnegotiated checks, including the following Program Operations Manual System citations:
 - SM 00624.400 How the Returned Check Action (REACT) Program Processes Limited Payability Files;
 - SM 00624.405 How to Process PC Limited Payability Exceptions;
 - SM 00624.410 FO Handling of the Limited Payability Notice;
 - SM 00624.412 PC Limited Payability Processing;
 - SM 00624.415 PC Processing of a Limited Payability Credit Treasury Reversal;
 - SM 00624.420 FO/PC Processing of a Returned Check More Than One Year Old; and
 - SM 00545.300 Unnegotiated Check Events.
- We interviewed SSA staff in the Office of Financial Policy and Operations, Payment and Recovery Policy Staff and the New York Regional Office Center for Programs Support to obtain an understanding of the workflow for processing unnegotiated checks. Based on those interviews, we prepared a flowchart of the Title II unnegotiated payment process.

- We interviewed the New York Field Division of the Office of the Inspector General, Office of Investigations and regional SSA staff to obtain an understanding of the methodology used and results obtained by the New York Unnegotiated Check Study (New York Study).
- We reviewed SSA's National Unnegotiated Check System Match (National System Match) and the results of follow-up investigations by SSA Field Offices to ascertain the reasons checks were not being cashed and whether corrective actions were being taken.
- We reviewed a selection of 130 cases identified in SSA's National System Match and our data extract. For our review, we identified cases that appeared in the two data sets: the 1,239 cases in SSA's National System Match and the 4,317 cases in the OIG data extract of unnegotiated checks. We selected the top 130 cases by the largest number of unnegotiated checks. This number represented about 10 percent of the total cases in SSA's National System Match.
- We reviewed 18 of the 130 cases described above for which we were able to determine that the beneficiaries continued to have unnegotiated checks after SSA's New York Study and National System Match. For these 18 cases, we identified the number of unnegotiated checks from October 1988 through December 2003.

We were not able to perform verification tests of the results of SSA's follow-up investigations and corrective actions taken, because we did not receive complete data (case by case) for the National System Match. We requested the specific Social Security numbers (SSN) and the corresponding outcomes of the Field Office follow-up investigation and planned to verify the results to source data. We only received SSN level data for 288 of the 1,239 cases. The Division of Systems Security and Program Integrity advised us that the regions were given flexibility in how they collected data. Consequently, the data provided varied in the level of detail. As a result of these limitations, we developed an alternative test methodology, described above.

We performed our audit in New York and at SSA Headquarters in Baltimore, Maryland. We conducted our audit fieldwork between January and April 2005. The audited entities were the Office of Financial Policy and Operations, Payment and Recovery Policy Staff, the New York Regional Office Center for Programs Support, and the Division of Systems Security and Program Integrity. Our audit was performed in accordance with generally accepted government auditing standards.

Flowchart of the Title II Unnegotiated Checks Process



Results of the New York Unnegotiated Check Study

SSA provided us the results, as shown below, for the New York Unnegotiated Check Study (New York Study). The New York Study began as a joint effort between the New York Regional Office Center for Programs Support and the Office of the Inspector General, Office of Investigations, New York Field Office. The objective was to determine why checks were not being cashed. Each case identified was examined to determine if the issue was with check delivery, with the physical or mental status of the claimant, or if the problem lay elsewhere. The scope of the study was from January 1, 1997 to December 31, 2001. As indicated below, the New York Study concluded that the following situations occurred with beneficiaries:

| Category | Volume | Percentage of Total |
|-----------------------------|---------------|----------------------------|
| Claimant Deceased | 38 | 10.3 |
| Representative Payee Needed | 64 | 17.4 |
| Change of Address | 18 | 4.9 |
| Other | 166 | 45.1 |
| Unable to Locate | 70 | 19.2 |
| Fraud | 4 | 1.1 |
| Still Developing | 8 | 2.2 |
| Total | 368 | 100 (rounded) |

Explanations of “Other” reasons included claimants who:

- were unaware of the timeframe for cashing checks,
- did not need the funds,
- were entitled to disability benefits but working and not currently due the money,
- did not want a spouse/relative to know about the funds,
- were ill when checks were issued,
- were on vacation or abroad,
- were prevented by fire or other physical disasters from cashing their checks,
- put checks aside to cash at a later date and either forgot them or “hoarded” them for a rainy day, and
- misplaced where the checks were being kept.

The New York Study noted that it found some beneficiaries “in rather tragic circumstances.” Two such cases involved a husband and wife in Rochester and a claimant in Puerto Rico:

- In Rochester, due to the intervention of the Assistant District Manager, social services were called in a timely manner to help save the lives of two elderly homebound individuals (a husband and wife) in need of medical resources and living assistance.
- In Puerto Rico, a mentally ill claimant was living in squalid conditions and needed social services to assist him.

Other individuals were also identified who needed basic living services and assistance.

Appendix E

Results of the National Unnegotiated Check System Match

SSA provided us the results, as shown below, for the National Unnegotiated Check System Match (National System Match). The data match was run on April 24, 2003 to identify beneficiaries who had not cashed 10 or more checks since January 1, 1999, for all of SSA's regions, except Region II, which was addressed in the New York Unnegotiated Check Study (New York Study). The National System Match excluded certain types of cases from further development and referral to Field Offices for follow-up investigations. Specifically, cases of beneficiaries with representative payees appointed or indications on the Payment History Update System that replacement checks had been re-issued were both excluded. The National System Match identified 871 cases. When added to the New York Study cases, SSA reviewed a total of 1,239 cases. The total number of cases detailed in the table below exceeds the actual number of cases referred to, and processed by, the regions (1,267 versus 1,239) because the results of some cases were classified in more than one category. For example, a case recorded in the "Suspension" column was also recorded in the "Office of the Inspector General (OIG) Referral" and the "Representative Payee Needed" columns. Additionally, we only received Social Security number level data for 288 of the 1,239 cases. As a result of this limitation, we were not able to confirm the results displayed in the table for most of the cases. The results of the New York Study are also included in the table below.

| Region | OIG Referrals | Death | Suspension | Representative Payee Needed | Checks Reissued | Pending or No Change | Disability Investigation | Totals |
|------------------------------------|---------------|-----------|------------|-----------------------------|-----------------|----------------------|--------------------------|--------------|
| Boston | 4 | 2 | 13 | 7 | 43 | 18 | 4 | 91 |
| New York | 4 | 38 | 70 | 64 | 184 | 8 | 0 | 368 |
| Philadelphia | 26 | 3 | 36 | 8 | 24 | 28 | 0 | 125 |
| Atlanta | 6 | 6 | 10 | 15 | 89 | 0 | 0 | 126 |
| Chicago | 4 | 13 | 31 | 26 | 50 | 42 | 8 | 174 |
| Dallas | 11 | 17 | 16 | 10 | 39 | 0 | 5 | 98 |
| Kansas City | 1 | 1 | 2 | 2 | 19 | 0 | 2 | 27 |
| Denver | 0 | 1 | 4 | 1 | 19 | 0 | 2 | 27 |
| San Francisco | 10 | 16 | 46 | 26 | 78 | 0 | 10 | 186 |
| Seattle | 0 | 0 | 5 | 3 | 14 | 2 | 1 | 25 |
| Office of International Operations | 0 | 1 | 2 | 3 | 11 | 3 | 0 | 20 |
| Total | 66 | 98 | 235 | 165 | 570 | 101 | 32 | 1,267 |

Appendix F

Agency Comments



SOCIAL SECURITY

MEMORANDUM

Date: September 1, 2005 Refer To: S1J-3

To: Patrick P. O'Carroll, Jr.
Inspector General

From: Larry W. Dye /s/
Chief of Staff

Subject: **Office of the Inspector General (OIG) Draft Report, "The Effectiveness of the Social Security Administration's Controls Over Title II Unnegotiated Checks" (A-02-05-15079)-- INFORMATION**

We appreciate OIG's efforts in conducting this review. Our comments on the draft report's recommendations are attached.

Please let me know if you have any questions. Staff inquiries may be directed to Ms. Candace Skurnik, Director, Audit Management and Liaison Staff, at extension 54636.

Attachment:
SSA Response

COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT, "THE EFFECTIVENESS OF THE SOCIAL SECURITY ADMINISTRATION'S CONTROLS OVER TITLE II UNNEGOTIATED CHECKS" (A-02-05-15079)

Thank you for the opportunity to review and comment on the draft report. We are pleased that this review found that we are in compliance with Public Law (P.L.) 100-86, and the policies related to unnegotiated checks. As demonstrated by our own internal efforts to conduct special studies, the 2002 Medicare Non-Usage Project and the New York and National Unnegotiated Check Match, we take very seriously our role to ensure that checks are being properly paid. In addition, on July 20, 2005, we issued Transmittal Number 18, which revises Program and Operations Manual System (POMS) GN 02401.901-930 and provides instructions on the processing of limited payability checks that are more than 12 months old and on which an unresolved action still exists.

The updated analysis section of this report is incorrect when it states that “we found that corrective action had not been taken after SSA initiated contact with the beneficiaries.” To the contrary, as a result of the National Unnegotiated Check Match, each region was given a listing of their cases, as well as processing reminders and instructions. The initial contact of beneficiaries took place by mail and, where needed, additional in-person contacts were made. Based on the results of those contacts, all necessary development was undertaken to terminate benefits, if appropriate, appoint a representative payee, reissue the check(s) and/or refer the case to OIG’s Office of Investigations. While this review may have identified a population of beneficiaries who continued to receive and have unnegotiated checks, OIG did not perform the analysis required to conclude that corrective action had not been taken. We expect that our review of the 18 cases, as called for in recommendation number one below, will reveal that no further action could be taken, as we cannot mandate that an individual use direct deposit or negotiate their checks.

Our responses to the specific recommendations are provided below.

Recommendation 1

SSA should review and take appropriate action to address the 18 cases we identified where unnegotiated checks continue.

Response

We agree in part. As we stated above, we believe that all necessary and appropriate action was taken to address the 18 cases. However, we agree to re-review with the caveat that we will not take further action on cases where the regions have already made contact and the beneficiary refuses to negotiate his/her check(s).

Recommendation 2

SSA should develop policy requiring staff outreach to beneficiaries who repeatedly do not negotiate their checks or respond to SSA's related mailings to determine their service needs.

Response

We disagree. While we understand the "outreach" intent of the recommendation, we do not believe that a formal policy is necessary. We have taken action to reach out to these beneficiaries through our special studies and matches and, in conjunction with our work in the National Match, we have distributed processing reminders and instructions to all of the regions. Any further development or implementation of a formal policy would need to be evaluated in terms of the resource commitment this type of outreach may require. Additionally, we would not want to duplicate current local practices of referrals from adult protective services, police and other social service agencies. Finally, this type of outreach could also present some security concerns, as we believe some individuals who are not negotiating checks are doing so because of philosophical opposition to the Government and, if contacted, could pose a danger to our employees.

We have proposed a systems enhancement proposal, which would notify us directly, in coordination with the beneficiary, that a check has been unnegotiated. However, due to other higher priority resources, this enhancement is currently unscheduled.

Appendix G

OIG Contacts and Staff Acknowledgments

OIG Contacts

Tim Nee, Director, New York Office of Audit, (212) 264-5295

Vicki Abril, Audit Manager, New York Office of Audit, (212) 264-0504

Acknowledgments

In addition to those named above:

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Christine Chen, Auditor

Cheryl Robinson, Writer/Editor

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