

Audit Report

Disabled Beneficiaries Receiving
Direct Payments Who Previously Had
a Representative Payee

MEMORANDUM

Date: December 12, 2016 **Refer To:**

To: The Commissioner

From: Acting Inspector General

Subject: Disabled Beneficiaries Receiving Direct Payments Who Previously Had a Representative Payee (A-09-17-50205)

The attached final report presents the results of the Office of Audit's review. The objective was to determine whether the Social Security Administration had adequate controls to ensure it made capability determinations for disabled beneficiaries who previously had a representative payee.

If you wish to discuss the final report, please call me or have your staff contact Rona Lawson, Assistant Inspector General for Audit, 410-965-9700.


Gale Stallworth Stone

Attachment

Disabled Beneficiaries Receiving Direct Payments Who Previously Had a Representative Payee

A-09-17-50205



December 2016

Office of Audit Report Summary

Objective

To determine whether the Social Security Administration (SSA) had adequate controls to ensure it made capability determinations for disabled beneficiaries who previously had a representative payee.

Background

SSA appoints representative payees to receive and manage the payments of those beneficiaries who cannot manage or direct the management of their own benefits because of their youth or mental and/or physical impairments.

When SSA learns a beneficiary has a mental or physical impairment that may prevent him/her from managing or directing the management of benefits, it must make a capability determination as to whether representative or direct payment is in the beneficiary's best interest.

If SSA employees subsequently determine a beneficiary does not need a representative payee, they must document their capability determination in the Electronic Representative Payee System (eRPS).

For our review, we identified 99,658 disabled beneficiaries who had a mental impairment, previously had a representative payee, and were receiving benefits directly as of July 2015.

Findings

SSA needs to improve controls to ensure it makes and documents capability determinations for disabled beneficiaries who previously had a representative payee. Based on our random sample, we estimate that, for 44,348 disabled beneficiaries who previously had a representative payee, there was no evidence of SSA's capability determination of whether the beneficiaries were capable of managing or directing the management of their benefits. If SSA determined these beneficiaries were incapable, it should not have paid the estimated \$2.8 billion in direct payments it paid to these beneficiaries. Conversely, if SSA found they were capable and it simply did not document its capability determinations, the payments to these beneficiaries would have been proper.

This occurred because SSA employees (1) did not make capability determinations or (2) made capability determinations but did not document those determinations in eRPS. In addition, there were no controls to ensure SSA employees had documented their capability determinations.

Recommendations

We recommend that SSA:

1. Take appropriate action to obtain evidence of capability and make capability determinations for the 76 beneficiaries identified by our audit.
2. Evaluate the results of its corrective action for the sample of beneficiaries and, if a substantial number are incapable of managing or directing the management of their benefits, determine the appropriate action it should take for the remaining population of 99,458 beneficiaries.
3. Improve controls to ensure SSA employees document their capability determinations.

SSA agreed with our recommendations.

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ABBREVIATIONS

DIG	Diagnosis Code
eRPS	Electronic Representative Payee System
MBR	Master Beneficiary Record
OASDI	Old-Age, Survivors and Disability Insurance
OIG	Office of the Inspector General
POMS	Program Operations Manual System
SDIG	Secondary Diagnosis Code
SSA	Social Security Administration
U.S.C.	United States Code

OBJECTIVE

Our objective was to determine whether the Social Security Administration (SSA) had adequate controls to ensure it made capability determinations for disabled beneficiaries who previously had a representative payee.

BACKGROUND

The Old-Age, Survivors and Disability Insurance (OASDI) program provides monthly benefits to retired and disabled workers, including their dependents and survivors.¹ SSA appoints representative payees to receive and manage the payments of those beneficiaries who cannot manage or direct the management of their own benefits because of their youth or mental and/or physical impairments. SSA selects representative payees when representative payments would serve the beneficiaries' interests.²

According to SSA policy, it presumes that all legally competent, adult beneficiaries are capable of managing or directing the management of their benefits unless there are indicators or evidence to the contrary. When SSA learns a beneficiary has a mental or physical impairment that may prevent him/her from managing or directing the management of benefits, it must make a capability determination as to whether representative or direct payment is in the beneficiary's best interest.³

When an adult beneficiary requires a representative payee and none is immediately available, SSA must initiate a search for a suitable representative payee and make interim direct payment to the beneficiary unless it would cause physical or mental injury to the beneficiary, or the beneficiary is legally incompetent or under age 15. If direct payment to an incapable beneficiary would cause the beneficiary physical or mental injury, SSA can generally suspend benefits for a maximum of 1 month while developing for a representative payee. In cases where direct payment to an incapable beneficiary is required, SSA employees must follow up after 90 days to determine how the beneficiary is handling his/her benefits. If SSA has not located a representative payee, it must follow up in another 90 days and reassess how the beneficiary is handling his/her benefits. If SSA has not located a representative payee after a second follow up, it must follow up a third time in another 90 days and continue direct payment without further review if it appears the beneficiary used the benefits to meet his/her needs. Otherwise, SSA must continue follow-up contacts until a representative payee is appointed. SSA policy states that it must document its follow-up contacts and decision to continue direct payment. If SSA

¹ The *Social Security Act*, § 201 *et seq.*, 42 U.S.C. § 401 *et seq.*

² SSA, POMS, GN 00502.001 (March 16, 2011) and GN 00502.010 (February 25, 2003).

³ SSA, POMS, GN 00502.010 (February 25, 2003) and GN 00502.020.A.1 (April 15, 2016).

employees subsequently determine a beneficiary does not need a representative payee, they must document their capability determination in the Electronic Representative Payee System (eRPS).⁴

For our review, we identified from the Master Beneficiary Record (MBR) 99,658 OASDI beneficiaries who had a mental impairment, previously had a representative payee, and were receiving benefits directly as of July 2015. Table 1 summarizes the beneficiaries in our population by disability diagnosis (DIG) and secondary diagnosis codes (SDIG).⁵ We selected these diagnosis codes because of the severity of the disability and potential need for representative payment.

Table 1: Disabled Beneficiaries in Direct Pay Who Had a Prior Representative Payee

Diagnosis Code	Description	Beneficiaries
DIG 2950	Schizophrenic, Paranoid, and Other Psychotic Disorders	54,738
DIG 2940	Organic Mental Disorders	31,018
DIG 3010	Personality Disorders	5,672
SDIG 3030	Substance Addiction Disorders (Alcohol)	4,332
SDIG 3040	Substance Addiction Disorders (Drugs)	3,898
Total		99,658

From this population, we selected a random sample of 200 beneficiaries for review (see Appendix A).

RESULTS OF REVIEW

SSA needs to improve controls to ensure it makes and documents capability determinations for disabled beneficiaries who previously had a representative payee. Based on our random sample, we estimate that, for 44,348 disabled beneficiaries who previously had a representative payee, there was no evidence of SSA's capability determination of whether the beneficiaries were capable of managing or directing the management of their benefits. If SSA determined these beneficiaries were incapable, it should not have paid the estimated \$2.8 billion in direct payments it paid to these beneficiaries. Conversely, if SSA found they were capable and it simply did not document its capability determinations, the payments to these beneficiaries would have been proper (see Appendix B).

⁴ SSA, POMS, GN 00502.055 (January 21, 2005) and GN 00504.105 (April 15, 2016).

⁵ For our review, we selected beneficiaries with DIG codes of 2940, 2950, and 3010 regardless of SDIG codes. We then selected beneficiaries with SDIG codes of 3030 or 3040.

This occurred because SSA employees (1) did not make capability determinations or (2) made capability determinations but did not document those determinations in eRPS. In addition, there were no controls to ensure SSA employees had documented their capability determinations.

SSA's Policies and Procedures for Making Capability Determinations

According to SSA policy, when there is an allegation or indication that an incapable beneficiary may have become capable, SSA must develop lay evidence in every case and medical evidence when possible.⁶ Medical evidence is a medical professional's opinion based on an examination of a beneficiary. Lay evidence is anything other than medical evidence that gives insight into a beneficiary's ability to manage or direct the management of his/her funds. Lay evidence includes SSA's observations during an interview with a beneficiary and signed statements from a beneficiary's relatives and friends, social workers, and community services groups describing the beneficiary's ability to manage funds. SSA employees must evaluate both lay and medical evidence when making a capability determination.⁷ If SSA employees subsequently determine a beneficiary does not need a representative payee, they must document in eRPS their capability determination and facts or evidence they used to support their capability decision.⁸

Beneficiaries May Be Incapable of Managing Their Benefits

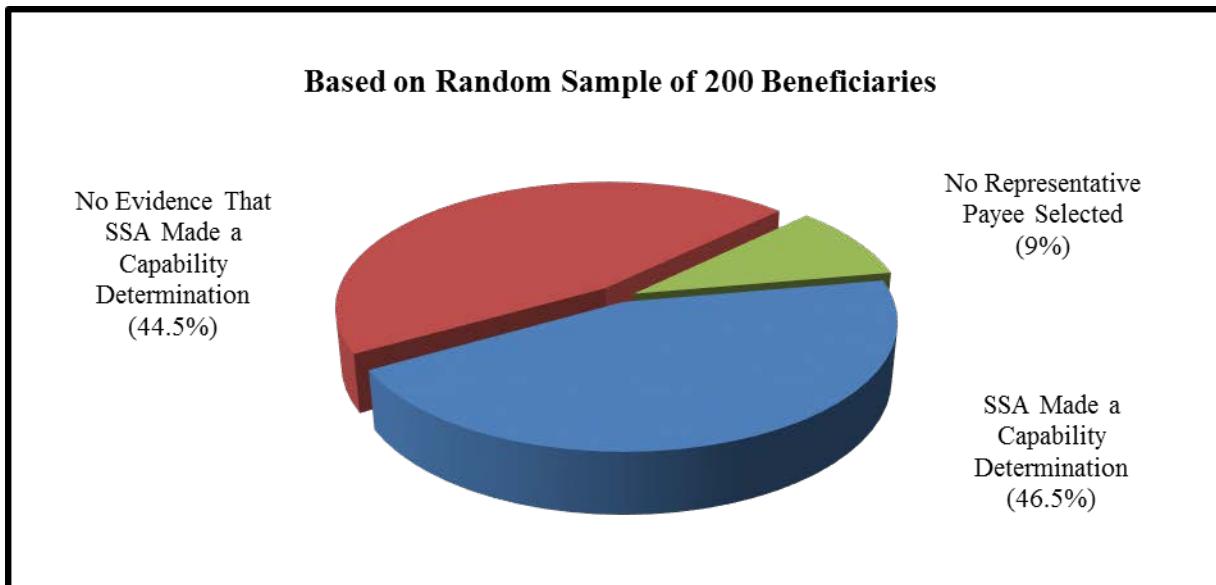
Of the 200 beneficiaries in our sample, there was no evidence that SSA made a capability determination for 89 (44.5 percent). SSA paid these beneficiaries approximately \$5.6 million in direct payments. This included 42 beneficiaries for whom there was no evidence of capability and 47 for whom there was lay or medical evidence but no capability determination. For 93 (46.5 percent) beneficiaries, SSA employees made and documented their capability determination. According to eRPS, the remaining 18 (9 percent) beneficiaries never had a representative payee. Figure 1 summarizes the results of our review.

⁶ SSA, POMS, GN 00502.020.B (April 15, 2016).

⁷ SSA, POMS, GN 00502.025 (January 18, 2012) and GN 00502.030 (April 15, 2016).

⁸ SSA, POMS, GN 00502.060.B (April 15, 2016).

Figure 1: Disabled Beneficiaries Who May Need a Representative Payee



The 89 beneficiaries had a representative payee for an average of 6.7 years before SSA paid benefits directly.⁹ Of the 89 beneficiaries, as of November 2016, SSA had selected representative payees for 5, terminated 4 for death, and determined 3 were no longer disabled. In addition, one beneficiary was suspended for imprisonment and therefore no longer needed a capability determination.¹⁰ Therefore, as of November 2016, SSA needed to take action to make and/or document capability determinations for 76 of the 89 beneficiaries. Our review found no evidence to determine whether SSA made interim direct payments and followed up, as required, to determine whether beneficiaries were properly managing their benefits. In addition, we found no evidence to indicate whether SSA had established direct payments because it determined they were capable of managing their benefits and no longer needed a representative payee.

For 42 beneficiaries, there was no medical or lay evidence of capability or evidence of SSA's capability determination. For 47 beneficiaries, SSA had obtained some evidence of capability, but there was no evidence of its capability determination. We found that SSA had obtained lay and/or medical evidence indicating the beneficiaries may have been capable of managing their benefits. Of the 47 beneficiaries, 36 had medical evidence only, 1 had lay evidence only, and 10 had both medical and lay evidence.¹¹

⁹ The mean was 6.7 years. The median was 5.5 years.

¹⁰ If this individual starts receiving benefits again after he is released from prison, SSA will need to determine whether he is capable of managing his own benefits.

¹¹ Of the 47 beneficiaries, 6 had conflicting medical and lay evidence where 1 indicated the beneficiary was capable of managing the benefits and the other indicated the beneficiary was incapable.

For example, in December 1992, SSA determined a beneficiary with a mental disorder was incapable and selected a representative payee to manage his benefits. In August 2009, the beneficiary requested direct payment, and SSA began paying him benefits directly. However, we found no evidence that SSA had obtained evidence of capability or made a capability determination to support direct payment to the beneficiary. As of August 2016, SSA had paid the beneficiary \$131,807.

CONCLUSIONS

SSA needs to improve controls to ensure it makes and documents capability determinations for disabled beneficiaries who previously had a representative payee. Based on our random sample, we estimate that, for 44,348 disabled beneficiaries who previously had a representative payee, there was no evidence of SSA's capability determination of whether the beneficiaries were capable of managing or directing the management of their benefits. If SSA determined these beneficiaries were incapable, it should not have paid the estimated \$2.8 billion in direct payments it paid to these beneficiaries. Conversely, if SSA found they were capable and it simply did not document its capability determinations, the payments to these beneficiaries would have been proper (see Appendix B).

In May 2016, SSA issued a reminder to its field offices on the policies and procedures for making capability determinations, including the required documentation in eRPS. Although SSA provided its employees guidance, we believe additional actions are necessary to ensure they obtain evidence of capability and document their capability determinations. For example, SSA could improve controls by requiring a second review and approval of capability determinations or establishing a systems alert to ensure employees document their capability determinations. Such actions are particularly important for beneficiaries who had a representative payee and were previously determined to be incapable of handling their benefits.

RECOMMENDATIONS

We recommend that SSA:

1. Take appropriate action to obtain evidence of capability and make capability determinations for the 76 beneficiaries identified by our audit.
2. Evaluate the results of its corrective action for the sample of beneficiaries and, if a substantial number are incapable of managing or directing the management of their benefits, determine the appropriate action it should take for the remaining population of 99,458 beneficiaries.
3. Improve controls to ensure SSA employees document their capability determinations.

AGENCY COMMENTS

SSA agreed with our recommendations. The Agency's comments are included in Appendix C.



Rona Lawson
Assistant Inspector General for Audit

APPENDICES

Appendix A – SCOPE AND METHODOLOGY

We obtained from the Social Security Administration’s (SSA) Master Beneficiary Record (MBR) a data extract of beneficiaries who were in current pay and had representative payee information on the MBR as of July 2015. Using this information, we identified a population of 99,658 beneficiaries who had mental, schizophrenic, paranoia, psychotic, or substance addiction disorders who received direct payments between January 2005 and July 2015. From this population, we selected a random sample of 200 beneficiaries for review.

To accomplish our objective, we

- reviewed the applicable sections of the *Social Security Act*, the United States Code, and SSA’s Program Operations Manual System;
- interviewed SSA employees from the Offices of Operations, Systems, and Retirement and Disability Policy;
- reviewed queries from SSA’s MBR, Electronic Representative Payee System, Claims File Records Management System, Payment History Update System, and Treasury Check Information System; and
- determined whether SSA had obtained evidence of capability and made capability determinations for disabled beneficiaries receiving direct payments who previously had a representative payee.

We determined whether the computer-processed data from the MBR were sufficiently reliable for our intended purpose. We tested the data to determine their completeness and accuracy. These tests allowed us to assess the reliability of the data and achieve our audit objective.

We conducted audit work in Richmond, California, and Baltimore, Maryland, between June and November 2016. The entity audited was the Office of Operations under the Office of the Deputy Commissioner for Operations.

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 objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Appendix B – SAMPLING METHODOLOGY AND RESULTS

From the Social Security Administration’s (SSA) Master Beneficiary Record (MBR), we obtained a data extract of beneficiaries in current pay who had a representative payee and were receiving benefits directly as of July 2015. Using this information, we identified a population of 99,658 beneficiaries who had mental, schizophrenic, paranoia, psychotic, or substance addiction disorders who received direct payments between January 2005 and July 2015. From this population, we selected a random sample of 200 beneficiaries for review. For each beneficiary, we determined whether (1) the beneficiary received benefits directly and (2) there was evidence of SSA’s capability determination.

Of the 200 beneficiaries in our sample, there was no evidence of SSA’s capability determination of whether the beneficiaries were capable of managing or directing the management of their benefits for 89. SSA paid these beneficiaries about \$5.6 million in direct payments. Projecting our sample results to the population of 99,658 beneficiaries, we estimate that if SSA determined they were incapable, it should not have paid them as much as \$2.8 billion in direct payments. Conversely, if SSA found they were capable and it simply did not document its capability determinations, the payments to these beneficiaries would have been proper.

The following tables provide the details of our sample results and statistical projections.

Table B–1: Population and Sample Size

Description	Beneficiaries
Population Size	99,658
Sample Size	200

Table B–2: Beneficiaries Who May Have Been Incapable of Managing Benefits

Description	Beneficiaries	Direct Payments
Sample Results	89	\$5,625,915
Point Estimate	44,348	\$2,803,337,136
Projection – Lower Limit	38,435	\$2,272,574,934
Projection – Upper Limit	50,383	\$3,334,099,337

Note: All statistical projections are at the 90-percent confidence level.

Appendix C – AGENCY COMMENTS



SOCIAL SECURITY

MEMORANDUM

Date: December 1, 2016 **Refer To:** S1J-3

To: Rona Lawson
Assistant Inspector General for Audit

From: Frank Cristaudo /s/
Counselor to the Commissioner

Subject: Office of the Inspector General Draft Report, “Disabled Beneficiaries Receiving Direct Payments Who Previously Had a Representative Payee” (A-09-17-50205)--INFORMATION

Thank you for the opportunity to review the draft report. Please see our attached comments.

Please let me know if we can be of further assistance. You may direct staff inquiries to Gary S. Hatcher at (410) 965-0680.

Attachment

**COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL DRAFT REPORT,
“DISABLED BENEFICIARIES RECEIVING DIRECT PAYMENTS WHO
PREVIOUSLY HAD A REPRESENTATIVE PAYEE” (A-09-17-50205)**

General Comments

We appreciate OIG’s efforts in reviewing disabled beneficiaries receiving direct payments who previously had a representative payee. Representative payees play a significant role in many beneficiaries’ lives. We have approximately 6.2 million representative payees managing annual benefits for approximately 8 million beneficiaries. We take our responsibility very seriously to ensure that our beneficiaries can properly handle their own benefits or to select the most qualified representative payee available.

We are always exploring ways to better identify, screen, and appoint representative payees. We have developed a Capability Action Plan that provides a roadmap of future representative payee systems enhancements. For example, we are currently working on a screen change in the electronic Representative Payee System (eRPS) that will enforce the mandatory documentation of capability determinations.

While we believe that every representative payee decision is an important one, we note that the total potential universe of beneficiaries covered by this audit represents less than 1.25 percent of all beneficiaries with representative payees.

Recommendation 1

Take appropriate action to obtain evidence of capability and make capability determinations for the 86 beneficiaries identified by our audit.

Response

We agree. After further review of the 86 cases, we found 10 on the list no longer require any action. We already selected a new payee for three individuals. Additionally, three individuals are now deceased, and four individuals are not in current pay. We request OIG update this recommendation to reflect the change in the number of cases needing further action. We will take action to make and/or document capability determinations on the remaining 76 beneficiaries identified by the audit.

Recommendation 2

Evaluate the results of its corrective action for the 86 beneficiaries and, if a substantial number are incapable of managing or directing the management of their benefits, determine the appropriate action it should take for the remaining population of 99,458 beneficiaries.

Response

We agree. As noted in our response to recommendation 1, we request OIG change the number of records needing review from 86 to 76. In addition, we request that OIG reword the recommendation to “Evaluate the results of its corrective action for the sample of beneficiaries and, if a substantial number are incapable of managing or directing the management of their benefits, determine the appropriate action it should take for the remaining population of 99,458 beneficiaries.” We believe that this change will accurately reflect OIG’s analysis and our actions to address the recommendation. After we review the 76 beneficiaries, we will determine if the errors were documentation or capability determination errors. If a “substantial” number are capability determination errors, we will evaluate the value in completing a review of the remaining 99,458 beneficiaries. Based on prior discussions with OIG, if a “substantial” number of the 76 cases are documentation errors, OIG will not require us to take action to review the remaining 99,458.

Recommendation 3

Improve controls to ensure SSA employees document their capability determinations.

Response

We agree. As documented in our Capability Action Plan, we have a strategy in place to address this recommendation and will continue actions to implement the plan. We will consider making modifications to our plan as needed.

[OIG Note: As of November 2016, SSA had taken corrective action on 13 of the 89 beneficiaries identified by our audit. Therefore, we updated the report accordingly.]

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