



# Office of the Inspector General

SOCIAL SECURITY ADMINISTRATION

## *Audit Report*

### Disabled Beneficiaries Receiving Direct Payments Who Previously Had Representative Payees

*052403 September 2024*



# Office of the Inspector General

SOCIAL SECURITY ADMINISTRATION

## MEMORANDUM

**Date:** September 17, 2024

**Refer to:** 052403

**To:** Martin O'Malley  
Commissioner

**From:** Michelle L. Anderson *Michelle L. Anderson*  
Assistant Inspector General for Audit  
as Acting Inspector General

**Subject:** Disabled Beneficiaries Receiving Direct Payments Who Previously Had Representative Payees

The attached final report presents the results of the Office of Audit's review. The objective was to determine whether the Social Security Administration ensured employees made complete and accurate capability determinations for disabled beneficiaries who previously had representative payees.

Please provide within 60 days a corrective action plan that addresses each recommendation. If you wish to discuss the final report, please call me or have your staff contact Jeffrey T. Brown, Deputy Assistant Inspector General for Audit.

Attachment

# Disabled Beneficiaries Receiving Direct Payments Who Previously Had Representative Payees

## 052403



September 2024

Office of Audit Report Summary

### Objective

To determine whether the Social Security Administration (SSA) ensured employees made complete and accurate capability determinations for disabled beneficiaries who previously had representative payees (payee).

### Background

When a beneficiary who has a payee requests direct payment, an SSA employee must develop for, determine, and document a new capability determination for the beneficiary. If the employee determines the beneficiary is capable, the employee must create and process an application in the Electronic Representative Payee System (eRPS) for direct payment.

SSA can make interim direct payments to an incapable beneficiary while employees look for a payee. Employees must follow up to assess how the beneficiary is handling their benefits.

We conducted three audits on the accuracy and completeness of information in eRPS. This is the first report in the series.

For this audit, we identified 89,403 disabled beneficiaries who had mental impairments, previously had payees, and were receiving benefits directly as of April 2021. We selected a random sample of 200 for review.

### Results

SSA did not ensure employees made complete and accurate capability determinations for disabled beneficiaries who previously had payees. We estimate, for approximately 19,000 disabled beneficiaries who previously had payees, there was no evidence SSA determined the beneficiaries were capable of managing, or directing the management of, their benefits. In addition, there was no evidence SSA performed proper follow-up development. SSA paid approximately \$887 million in benefits directly to these beneficiaries without evidence to show they were capable of, or were, using the benefits to meet their basic needs. Finally, we estimate SSA did not properly document capability determinations for approximately 6,700 beneficiaries.

This occurred because SSA did not have effective system controls to ensure employees properly documented their capability determinations. Additionally, SSA did not have controls to ensure employees authorized direct payments to incapable beneficiaries in accordance with SSA's policy and properly performed the follow-up reviews after they made interim direct payment to those beneficiaries.

### Recommendations

We recommend SSA:

1. Make capability determinations and/or document capability determinations for the 58 beneficiaries in our sample.
2. Improve controls, such as enhancing eRPS and business processes, to ensure employees complete and document capability determinations that comply with SSA's policies.
3. Issue a reminder to ensure employees follow SSA's policy when they authorize direct payments to incapable beneficiaries while they continue developing for payees, follow up to assess how beneficiaries are managing their benefits, and document the results of the followups.

SSA agreed with our recommendations.

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## **ABBREVIATIONS**

|        |  |
|--------|--|
| C.F.R. | Code of Federal Regulations                  |
| eRPS   | Electronic Representative Payee System       |
| OASDI  | Old-Age, Survivors, and Disability Insurance |
| OIG    | Office of the Inspector General              |
| Payee  | Representative Payee                         |
| POMS   | Program Operations Manual System             |
| SSA    | Social Security Administration               |
| SSI    | Supplemental Security Income                 |
| U.S.C. | United States Code                           |

## OBJECTIVE

Our objective was to determine whether the Social Security Administration (SSA) ensured employees made complete and accurate capability determinations for disabled beneficiaries who previously had representative payees (payee).

## BACKGROUND

SSA administers the Old-Age, Survivors, and Disability Insurance (OASDI) program under Title II of the *Social Security Act*.<sup>1</sup> OASDI provides benefits to wage earners and eligible family members in the event a wage earner retires, becomes disabled, or dies. SSA also administers the Supplemental Security Income (SSI) program under Title XVI of the *Social Security Act*.<sup>2</sup> SSI is a means-tested program that provides a minimum level of income to individuals who are aged, blind, or disabled and meet certain income and resource limits.

SSA appoints payees for beneficiaries who cannot manage or direct the management of their Social Security benefits because of their youth or mental and/or physical impairments.<sup>3</sup> A payee, which may be an individual or an organization, receives OASDI benefits or SSI payments on these beneficiaries' behalf.<sup>4</sup> An individual or organization must complete an application to serve as a payee.<sup>5</sup> Social Security law and regulations require that payees use the benefits they receive for the beneficiary's current needs and in their best interest. They are responsible for keeping records and reporting to SSA on their use of beneficiaries' benefits.<sup>6</sup>

## The Electronic Representative Payee System

SSA uses the Electronic Representative Payee System (eRPS) to process payee applications. ERPS contains all payee-related information, such as their name, relationship to the beneficiary, guardianship, custody, etc.<sup>7</sup> SSA management uses payee information in eRPS reports to help them prepare congressional reports and trend analyses. Additionally, SSA relies on the accuracy of payee information on the Master Beneficiary Record and Supplemental Security Record to conduct oversight of payees.<sup>8</sup>

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<sup>1</sup> *Social Security Act* § 201, 42 U.S.C. § 401.

<sup>2</sup> *Social Security Act* § 1601, 42 U.S.C. § 1381.

<sup>3</sup> *Social Security Act* §§ 205, 1631; 42 U.S.C. §§ 405 (j)(1)(A) and 1383(a)(2); 20 C.F.R. §§ 404.2010, 416.610.

<sup>4</sup> We use the term "beneficiary" in this report to refer to OASDI beneficiaries and/or SSI recipients.

<sup>5</sup> SSA, *POMS*, GN 00501.013 (March 14, 2024) and GN 00502.107 (May 23, 2023).

<sup>6</sup> 20 C.F.R. §§ 404.2035, 416.635; SSA, *POMS*, GN 00502.114 (May 23, 2023).

<sup>7</sup> SSA, *POMS*, GN 00502.110, A (May 23, 2023).

<sup>8</sup> The Master Beneficiary Record contains information about each claimant who has applied for OASDI benefits. The Supplemental Security Record contains information about each individual who has applied for SSI payments.

## Capability

SSA presumes all legally competent adult beneficiaries are capable of managing their own benefits unless there are indicators or evidence to the contrary. If an SSA employee suspects a beneficiary has a mental or physical impairment that prevents them from managing, or directing the management of, their benefits, the employee must determine whether the beneficiary is capable of managing or directing the management of their Social Security benefits. When an employee determines a beneficiary is incapable, the employee must identify and appoint a suitable payee.<sup>9</sup>

### *Making Capability Determinations*

When a beneficiary who has a payee requests direct payment, an SSA employee must develop for, determine, and document a new capability determination for the beneficiary.<sup>10</sup> An SSA employee re-evaluates the beneficiary's capability using legal, lay, and medical evidence.<sup>11</sup> If there is legal evidence, such as a court order, that finds a beneficiary legally incompetent, the beneficiary must receive benefits through a payee. In such cases, an employee need not determine whether the beneficiary is capable.<sup>12</sup> Otherwise, employees must develop and carefully evaluate all lay and medical evidence when they make a capability determination.<sup>13</sup>

- **Legal evidence** includes a court order that specifies the beneficiary is legally incompetent.
- **Lay evidence** includes SSA employee observations of the beneficiary's behavior during an interview, a statement of capability signed by the beneficiary, and a statement signed by someone who has direct knowledge of the beneficiary's ability to manage benefits and meet daily needs, such as the beneficiary's relatives, friends, custodian, or social workers.
- **Medical evidence** includes a signed statement from a physician, psychologist, or other qualified medical source that assesses the beneficiary's ability to manage, or direct the management of, benefits.

SSA employees may not rely on medical evidence alone when they determine a beneficiary's capability; they must also obtain and consider lay evidence.

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<sup>9</sup> SSA, *POMS*, GN 00502.107, A (May 23, 2023) and GN 00502.020 (March 28, 2023).

<sup>10</sup> SSA, *POMS*, GN 00502.055, C (May 20, 2023).

<sup>11</sup> SSA, *POMS*, GN 00502.020, B (March 28, 2023).

<sup>12</sup> SSA, *POMS*, GN 00502.023 (June 29, 2022).

<sup>13</sup> SSA, *POMS*, GN 00502.060, B (March 30, 2023), GN 00502.020 (March 28, 2023), and GN 00502.030, A (May 10, 2023).

In addition, an SSA employee must interview the beneficiary to determine whether they are capable. An employee must also contact the beneficiary's payee to obtain their input about the beneficiary's ability to manage, or direct someone to manage, their benefits.<sup>14</sup> When an employee determines a beneficiary can manage, or direct someone else to manage, their benefits, an employee must create and process a self-application in eRPS.<sup>15</sup>

### ***Documenting Capability Determinations***

SSA employees must document all facts including lay evidence, medical evidence, and interviews to support their capability determinations. Employees must also document their concluding statements regarding beneficiaries' capability and include the basis for their determinations, such as the evidence they considered and the factors that supported their determinations.<sup>16</sup>

In June 2017, SSA implemented an enhancement to eRPS to help ensure employees document the facts and evidence they used to make capability determinations. The enhancement provides a pop-up window that requires that an employee enter a note that supports their capability determination. The employee cannot complete the payee selection in eRPS until they complete this step. Before SSA implemented the enhancement, an employee could complete a payee selection without documenting the capability determination in eRPS.

### ***Paying Incapable Beneficiaries Directly on an Interim Basis***

When a beneficiary needs a payee but the Agency has not found a suitable one, SSA must directly pay the beneficiary the benefits they are due unless an employee determines that doing so would cause substantial harm to the beneficiary.<sup>17</sup> While SSA makes interim direct payments to the incapable beneficiary, an employee must continue looking for a payee and set a reminder for a 90-day followup to assess how the beneficiary is handling their benefits. If the employee does not find a suitable payee after the first followup, the employee must conduct two, 90-day followups to assess how the beneficiary is handling their funds. If an employee has not located a payee after the third followup, the Agency can continue paying the beneficiary directly without an employee conducting further review if it appears the beneficiary is using the benefits to meet their needs. Otherwise, an employee must continue to follow up until they have identified and appointed a payee. Employees should document the results of each follow-up contact and the decision to continue direct payment.<sup>18</sup>

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<sup>14</sup> SSA, POMS, GN 00504.100, B (August 8, 2023).

<sup>15</sup> SSA, POMS, GN 00502.107, A (May 23, 2023).

<sup>16</sup> SSA, POMS, GN 00502.065 (June 7, 2023).

<sup>17</sup> SSA, POMS, GN 00504.105, A (August 11, 2023).

<sup>18</sup> SSA, POMS, GN 00504.105, B (August 11, 2023).



## SCOPE AND METHODOLOGY

We conducted three audits of the accuracy and completeness of information in eRPS. This is the first report in the series.<sup>19</sup> For this audit, from the Master Beneficiary Record and Supplemental Security Record, we identified 89,403 beneficiaries who had mental impairments and previously had payees as well as to whom SSA was paying benefits directly as of April 2021. From this population, we selected a random sample of 200 cases for review. For more information about our scope, methodology, and sampling results, refer to Appendix A.

## RESULTS OF REVIEW

SSA did not ensure employees made complete and accurate capability determinations for disabled beneficiaries who previously had payees. Based on our sample results, we estimate SSA directly paid approximately \$887 million to 19,000 beneficiaries who previously had payees; however, there was no evidence employees determined the beneficiaries were capable. In addition, we estimate SSA did not properly document capability determinations for approximately 6,700 beneficiaries (see Appendix A). For the 200 beneficiaries in our sample, we determined:

- There were no errors for 142.
- There was no evidence SSA made capability determinations for 37.
- SSA made interim direct payments without employees performing proper followups for six incapable beneficiaries.
- There was insufficient documentation of the capability determinations in eRPS for 15 beneficiaries.

### No Evidence of Capability Determination Before Direct Payment

There was no evidence SSA made capability determinations for 37 beneficiaries. Specifically, we found no lay evidence and therefore could not determine whether SSA obtained or evaluated lay evidence for these beneficiaries to support their decisions to make direct payment or document their capability determinations.<sup>20</sup> SSA paid approximately \$1.88 million directly to these beneficiaries.

- Of the 37 beneficiaries, 19 had applications employees created before the June 2017 system enhancement requiring that employees add a note regarding their capability determinations. Because we did not find evidence or documentation in eRPS, we could not determine whether employees made proper capability determinations.

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<sup>19</sup> This report is a part of a larger comprehensive audit of eRPS. Because of the size of the audit, we are reporting the results separately in three reports. The other reports are related to payees who were not properly established in eRPS and discrepancies in eRPS.

<sup>20</sup> We did not find legal evidence of incapability for these beneficiaries, therefore lay evidence is required.

- For 15 of the 37 beneficiaries, employees created payee applications after the June 2017 enhancement. While these applications included notes regarding the employees' capability determinations, the employees did not include in those notes all necessary evidence required to support their determinations. For example, an employee's note about a beneficiary's capability indicated there was medical evidence, but there was no evidence the employee evaluated any lay evidence, as required. As a result, the employee did not make a proper capability determination for the beneficiary.

While the June 2017 system enhancement requires that employees add notes regarding their capability determinations before they select payees, there is no control to ensure employees input specific information. As a result, the capability determinations employees made in eRPS after the system enhancement were insufficient and did not always indicate whether the beneficiaries were capable or include all evidence to support the capability determinations.

- SSA employees did not complete applications in eRPS before they authorized direct payments to the remaining three beneficiaries. Therefore, we found no documentation to indicate employees obtained evidence and determined whether the beneficiaries were capable of managing, or directing the management of, their benefits, as required.

## **No Evidence of Follow-up Development After Interim Direct Payments**

SSA made interim direct payments to six beneficiaries who previously had payees because employees could not find suitable payees. Evidence in eRPS indicated SSA employees had determined these beneficiaries could not manage or direct the management of their benefits. We could not find evidence to determine whether employees followed up to identify suitable payees or determine whether the beneficiaries properly managed the benefits the Agency paid directly to them.<sup>21</sup> SSA paid \$280,566 directly to these beneficiaries; however, there was no evidence to indicate employees followed up with these beneficiaries to determine whether they were using the benefits appropriately.

As required by policy, employees should set reminders to conduct followups in 90 days to assess how the beneficiaries were handling their funds and summarize the results of each follow-up contact and their decision to continue direct payments.<sup>22</sup> However, we could not find documentation that indicated employees took the follow-up actions. In addition, SSA did not have system alerts to notify employees that action was needed when they did not perform or document the follow-up actions.

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<sup>21</sup> We could not determine why SSA employees did not document evidence of the followups, if they were conducted, as required.

<sup>22</sup> SSA, POMS, GN 00504.105, B (August 11, 2023).

## **Insufficient Documentation of Capability Determinations**

The capability determinations for 15 beneficiaries indicated they may have been capable of managing their benefits; however, there was insufficient documentation of employees' capability determinations in eRPS:

- For 10 beneficiaries, employees included information regarding the beneficiaries' capability in eRPS but did not conclude whether the beneficiaries were capable.
- For three beneficiaries, employees included statements in eRPS that the beneficiaries were capable; however, there was no evidence to support their capability determinations.
- For two beneficiaries, employees documented conflicting information in eRPS regarding the beneficiaries' capability. The employee neither properly documented their capability determination and record the lay evidence they considered nor concluded whether the beneficiary was capable.

SSA did not have controls over the information employees document in eRPS to ensure they properly documented their capability determinations.

## **CONCLUSIONS**

Without adequate controls to ensure employees make complete and accurate capability determinations, SSA may be directly paying beneficiaries who are incapable of managing, or directing the management of, their benefits, increasing the risk that the beneficiaries' needs may not be met. Additionally, when employees insufficiently and improperly document their capability determinations, they may be making incorrect determinations, which increases the risk for SSA to directly pay incapable beneficiaries who should have payees.

## **RECOMMENDATIONS**

We recommend SSA:

1. Make capability determinations and/or document capability determinations for the 58 beneficiaries in our sample.
2. Improve controls, such as enhancing eRPS and business processes, to ensure employees complete and document capability determinations that comply with SSA's policies.
3. Issue a reminder to ensure employees follow SSA's policy when they authorize direct payments to incapable beneficiaries while they continue developing for payees, follow up to assess how beneficiaries are managing their benefits, and document the results of the followups.

## **AGENCY COMMENTS**

SSA agreed with the recommendations, see Appendix B.

# ***APPENDICES***

## Appendix A – SCOPE, METHODOLOGY, AND SAMPLING RESULTS

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To accomplish our objective, we:

- Reviewed the applicable sections of the *Social Security Act*, United States Code, and Social Security Administration's (SSA) *Program Operations Manual System*.
- Corresponded with SSA employees from the Office of Operations.
- Identified from the Electronic Representative Payee System (eRPS), Master Beneficiary Record, and Supplemental Security Record 89,403 beneficiaries who had certain mental disorders, such as schizophrenia, paranoia, psychosis, or substance addiction, were in eRPS as self-payee and had received direct payments as of April 2021.
- Selected a random sample of 200 beneficiaries for review to determine whether (1) the beneficiary previously had a representative payee, (2) the beneficiary received benefits directly, and (3) there was evidence of SSA's capability determination.
- Reviewed queries from the Master Beneficiary Record, Supplemental Security Record, eRPS, and Payment History Update System for each sample case.
- Reviewed SSA's Evidence Portal, Paperless, and Online Retrieval Systems to locate evidence of capability determinations and determine the actions SSA had taken.
- Provided SSA the potential error cases for its review and updated our analysis based on their feedback.
- Obtained information from SSA subject-matter experts to determine why the errors occurred.

We assessed the significance of internal controls necessary to satisfy the audit objective. This included an assessment of the five internal control components, including control environment, risk assessment, control activities, information and communication, and monitoring. In addition, we reviewed the principles of internal controls associated with the audit objective. We identified the following component and principles as significant to the audit objective.

- Component 3: Control Activities
  - Principle 10: Design control activities
  - Principle 11: Design activities for the information system
  - Principle 12: Implement control activities

We assessed the reliability of the computer-processed data by performing electronic testing and reviewing existing information about the data and the system that produced them. We also traced a statistically random sample of data to source documents. We determined the data were sufficiently reliable for the purposes of this report.

We conducted our audit work from October 2021 to March 2024. The entities audited were the Offices of the Deputy Commissioners for Operations and Systems. 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.

## Sampling Results

To conduct this review, we used a simple random sample statistical approach. This is a standard statistical approach used to create a sample from a population completely at random. As a result, each sample item had an equal chance of being selected throughout the sampling process, and the selection of one item had no impact on the selection of other items. Therefore, we were guaranteed to choose a sample that represented the population, absent human biases, and ensured statistically valid conclusions of, and projections to, the entire population under review. Our sampling approach for this review ensures our reported projections are statistically sound and defensible.

**Table A–1: Population and Sample Size**

| Description     | Beneficiaries |
|-----------------|---------------|
| Population Size | 89,403        |
| Sample Size     | 200           |

For 43 of the 200 beneficiaries in our sample, there was no evidence of employees' determinations the beneficiaries were capable of managing, or directing the management of, their benefits. SSA directly paid these beneficiaries approximately \$1.97 million. Projecting our sample results to the population of 89,403 beneficiaries, we estimate SSA directly paid approximately \$887 million to 19,000 disabled beneficiaries who were potentially incapable of managing, or directing the management of, their benefits.

**Table A–2: Direct Payments Made to Disabled Beneficiaries Without Evidence of Capability Determination or Proper Follow-up Development**

| Description              | Beneficiaries   | Direct Payments  |
|--------------------------|-----------------|------------------|
| Sample Results           | 42 <sup>1</sup> | \$1,974,681      |
| Point Estimate           | 19,222          | \$887,147,860    |
| Projection – Lower Limit | 15,036          | \$648,720,694    |
| Projection – Upper Limit | 23,983          | \$ 1,125,575,026 |

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

<sup>1</sup> There were a total of 43 errors but we removed 1 beneficiary from the projection totaling \$184,789 because it was an outlier.

For 15 of 200 beneficiaries, there was insufficient documentation in eRPS of employees' capability determinations. Projecting our sample result to the population, we estimate employees did not properly document their capability determinations for approximately 6,700 beneficiaries.

**Table A–3: Insufficient Documentation of Capability Determinations**

| Description              | Beneficiaries |
|--------------------------|---------------|
| Sample Results           | 15            |
| Point Estimate           | 6,705         |
| Projection – Lower Limit | 4,187         |
| Projection – Upper Limit | 10,111        |

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

## Appendix B – AGENCY COMMENTS

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### SOCIAL SECURITY

#### MEMORANDUM

Date: August 22, 2024

Refer To: TQA-1

To: Michelle L. H. Anderson  
Acting Inspector General

From: Dustin Brown   
Acting Chief of Staff

Subject: Office of the Inspector General Draft Report, “Disabled Beneficiaries Receiving Direct Payments Who Previously Had Representative Payees” (052403) - INFORMATION

Thank you for the opportunity to review the draft report. We agree with the recommendations.

We continue to explore automation enhancements and review agency procedures related to Representative Payee Legislation to ensure our ongoing efforts improve the accuracy and efficiency of our processes, promote program integrity, and prevent improper payments.

Please let me know if I can be of further assistance. Your staff may direct inquiries to Hank Amato, Director of the Audit Liaison Staff, at (407) 765-9774.





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