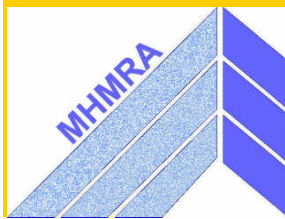


**SOCIAL SECURITY ADMINISTRATION'S  
REPRESENTATIVE PAYEE PROGRAM  
SUPPLEMENTAL SECURITY INCOME (SSI)**

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**Audit Report No. SSI0109**

**October 3, 2008**



**MENTAL HEALTH MENTAL RETARDATION  
AUTHORITY OF HARRIS COUNTY**

**Internal Audit Report**

**AUDITOR'S REPORT**

**Social Security Administration's  
Representative Payee Program  
Supplemental Security Income (SSI)**

**Harris County, Texas**

**Internal Audit Report**

**October 3, 2008**

**Henry E. Webb, CFE**

**Internal Auditor**





October 3, 2008

Steven B. Schnee, Ph.D.  
Executive Director  
MHMRA of Harris County  
7011 SW Freeway  
Houston, TX 77074

RE: Review of Procedures Relative to Social Security Administration's  
Representative Payee Program – Supplemental Security Income (SSI)

## **BACKGROUND**

### ***Supplemental Security Income (SSI)***

The SSI program provides monthly income to people who are 65 or older, or are blind or disabled, and have limited income and financial resources. SSI is financed by general funds of the U.S. Treasury-- personal income taxes, corporation taxes and other taxes. Social Security taxes withheld under the Federal Insurance Contributions Act (FICA) do not fund the SSI program. Effective January 2008, the SSI payment for an eligible individual/child is \$637 per month and \$956 per month for an eligible couple. If married and only one person is eligible, a portion of the spouse's income may be counted. If the consumer lives in the household of another the individual/child is eligible for \$424.67 and \$637.34 per month for an eligible couple. If the individual/child lives in a Medicaid Institution the amount per month is \$30. In addition, the financial resources (savings and assets owned) cannot exceed \$2,000 (\$3,000 if married). An individual can be eligible for SSI even if they have never worked in employment covered under Social Security.

Generally, to be eligible for SSI, an individual also must be a resident of the United States and must be a citizen or a noncitizen lawfully admitted for permanent residence. Also, some noncitizens granted a special status by the Department of Homeland Security (DHS) might be eligible.

The Social Security Administration appoints a representative payee when a consumer (beneficiary) is determined incapable of managing or directing someone else to manage their Social Security and /or SSI payments. These funds are to be used for the current and foreseeable personal needs of the consumer. Items such as housing, food, clothing medical, dental, and miscellaneous sundry expenses are included.

The Mental Health and Mental Retardation Authority of Harris County's role as a representative payee is divided between the program caseworkers (primary contact) and the Accounting Department (recordkeeping). Each section has very distinctive duties and responsibilities.

Fiduciary funds are used to account for resources held by MHMRA for the benefit of consumers. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support MHMRA's operations. Fiduciary funds are used to account for resources held by MHMRA on behalf of consumers in selected programs.

### ***Policy and Procedures***

In order to protect the consumer and comply with federal regulations, the following accounting and recordkeeping procedures have been implemented:

- All requisitions must be payable to a 3<sup>rd</sup> party vendor and not directly to the consumer.
- All requisitions \$100 and over require a written receipt or a cash register receipt. The receipt will be itemized to reflect what the money was spent on. The Accounting Department will not issue checks without proper expense documentation. **No exceptions.**

**Reporting**

MHMRA must promptly report to the Social Security Administration all changes that may affect the consumer’s eligibility for Social Security and/or SSI benefits. It is a federal offense to intentionally omit or falsify information to the Social Security Administration. Currently, MHMRA acts as a representative payee for approximately 136 consumers, issuing about 137 checks per month for a total of approximately \$41,971.

Interest earned for the Expendable Trusts for the period Fiscal Year 2003, through 2008 is provided in the table below:

Fiscal Year	Interest Income
Fiscal Year 2003	\$814
Fiscal Year 2004	\$420
Fiscal Year 2005	\$593
Fiscal Year 2006	\$1,059
Fiscal Year 2007	\$1,269
Fiscal Year 2008	\$1,123

**Dual Functional Responsibilities**

**Exhibit 1** presents the dual functional responsibilities for Program Caseworkers and the Accounting Staff as outlined by the Social Security Administration.

**Exhibit 1**

<b>Required Duties: Program Caseworkers</b>	<b>Required Duties: Accounting Staff</b>
1. Determine the consumer’s current needs for day-to-day living and use his or her payments to meet those needs.	1. Save any money left after meeting the consumer’s current needs in an interest bearing account or U.S. savings bond.
2. Report to the Accounting Department: Changes or events which could effect the consumers eligibility for benefits or payment amount such as a change in the amount of a pension, wage changes, etc.	2. Report to Social Security Administration: Information reported from the program caseworkers concerning eligibility for benefits or payment amount.
3. Provide benefit information to social service agencies or medical facilities that serve the consumer.	3. Keep written records of all payments received from Social Security Administration and how they are spent and/or saved.
4. Assist the consumer in the completion of continuing disability reviews and redeterminations of SSI eligibility.	4. Notify the Social Security Administration of any changes or circumstances that would affect MHMRA’s performance as a representative payee or MHMRA’s decision to continue to serve as a representative payee.
5. Report to Accounting Department: For SSI consumers any other income or resources that they have.	5. Report to Social Security Administration: For SSI consumers any other income reported by the program caseworkers.

<p>6. For children who receive SSI you must assist in obtaining treatment that was prescribed by a physician, psychologist or other acceptable medical source and that is expected to improve or restore the child's functioning. Failure to do so may result in the Social Security Administration removing MHMRA as representative payee.</p>	<p>6. Complete written reports accounting for the use of funds, return any payments to Social Security Administration for which the consumer is not entitled and return any conserved funds if MHMRA stops serving as a representative payee.</p>
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Exhibit 2 presents SSI client balances for Fiscal Years 2003 through 2008.

**Exhibit 2  
MHMRA of Harris County  
Fiduciary Net Assets  
Held in Trust for SSI Beneficiaries  
Balance Ended FY2003 – FY2008**

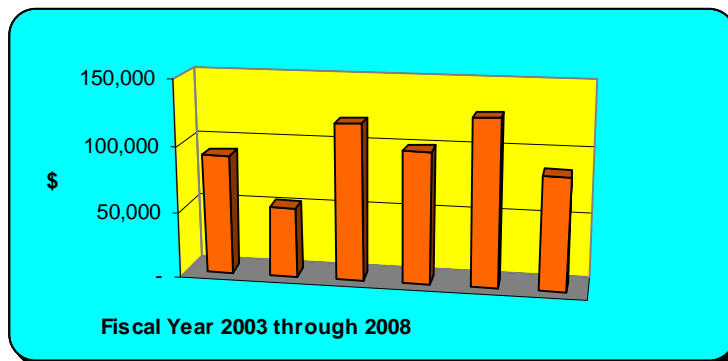
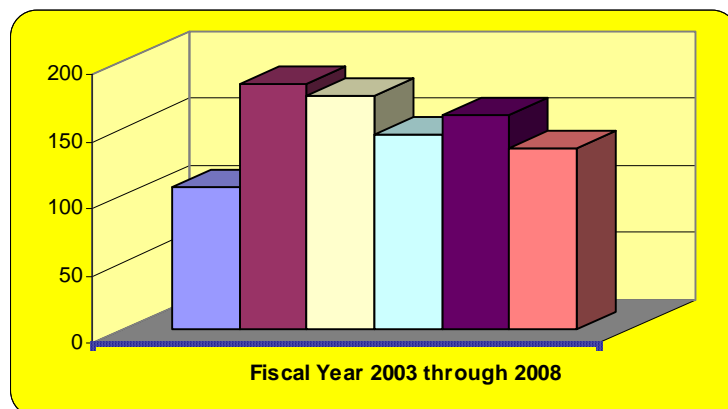


Exhibit 3 presents SSI client count for FY2003 – FY2008.

**Exhibit 3  
MHMRA of Harris County  
Fiduciary Net Assets  
Held in Trust for SSI Beneficiaries  
Client Count Ended FY2003 – FY2008**



## OBJECTIVES

The overall objectives of the audit were to determine whether MHMRA as a representative payee:

- Managed and used resources in an efficient, effective, and economical manner
- Administered funds in compliance with applicable laws, regulations, policies and procedures
- Implemented internal controls to prevent or detect material errors and irregularities

The specific objectives in this audit were to:

- Determine the adequacy of MHMRA's policies and procedures for managing consumer SSI benefits as a representative payee
- Determine if related expenses were supported, computed, and approved and reported in compliance with established Policy and Procedures

## SCOPE

The scope of the audit did not constitute an evaluation of the overall internal control structure of the unit. The examination was designed to evaluate and test compliance with established policies, procedures, laws, and regulations. The audit scope was for the period September 1, 2007 through August 31, 2008.

Department management is responsible for establishing and maintaining a system of internal controls to adequately comply with approved policy and procedures. The objectives of an internal control system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss, and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected in a timely manner. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or the degree of compliance with procedures may deteriorate.

The purpose of the audit report is to furnish management independent, objective analyses, recommendations, and information concerning the activities reviewed. The audit report is a tool to help management discern and implement specific improvements. The audit report is not an appraisal or rating of management.

Although due professional care in the performance was exercised, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud will be detected. Specific areas for improvement are addressed later in this report.

Other minor findings, not included in this report, have been communicated to management during the audit process. Internal Audit would like to thank management and staff for their cooperation throughout the audit.

## METHODOLOGY

In order to meet the objectives, Internal Audit flowcharted and evaluated controls over the fiduciary care of the representative payee program activities, reviewed the system relating to accounts, and reviewed laws, regulations, policies and procedures for compliance. Information and records were obtained from Agency personnel. Audit tests and procedures were conducted as considered necessary.

The sample size and selection were statistically generated using a desired confidence level of 96%, an expected error rate of 4%, and a desired precision of +/-4%. Statistical sampling was used in order to infer the conclusions of test work performed on a sample of the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

## STATEMENT OF AUDITING STANDARDS

The audit was conducted in accordance with generally accepted government auditing standards (GAGAS). Those standards require that Internal Audit plan and perform the audit to afford a reasonable basis for the judgments and conclusions regarding the organization, program, activity, or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. An audit also includes assessing the estimates, judgments, and decisions made by Agency management. It is believed that this audit provides a reasonable basis for the findings, conclusions, and recommendations.

## RESULTS

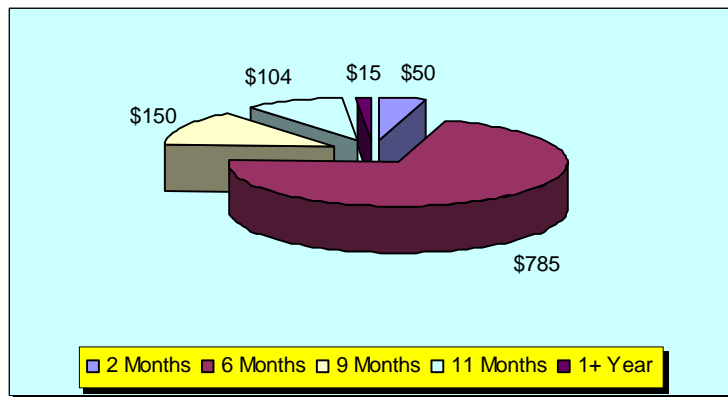
As a result of the audit procedures and surveys conducted, it was determined that departmental compliance with either established or drafted criteria to govern the consumer SSI benefits as a representative payee do not meet Agency policy and procedures. It was discovered that unreconciled bank items remained outstanding for approximately twelve months. This and other items are discussed below.

## FINDING

### *Outstanding Checks*

As of August 31, 2008, \$1,104 in uncashed checks were outstanding from two months to over one year. **Exhibit 4** presents the SSI client aged outstanding check amounts.

**Exhibit 4**  
**MHMRA of Harris County**  
**Fiduciary Net Assets**  
**Held in Trust for SSI Beneficiaries**  
**Outstanding Checks Ended FY2008**



## Recommendation

- Accounting reconcile, clear and adjust appropriate accounts within a 30-day time frame.
- Accounting investigate all outstanding checks over 60-days old to determine why they remain outstanding, void any checks 'stale' dated, and return funds to the Social Security Administration if the consumer is no longer under MHMRA care.

## Management Response

*"It is the Accounting departments' policy to investigate & clear outstanding checks that are 90 days and older. We are in full agreement with the audit recommendation and are in the process of reallocating the work distribution to ensure this procedure occurs in a timely matter."*

## FINDING

### *Segregation of Duties*

Segregation of duties is a basic, key internal control and one of the most difficult to achieve. It is used to ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business. Segregation of duties provides two benefits: 1) makes deliberate fraud more difficult because it requires collusion of two or more persons, and 2) it is much more likely that innocent errors will be found. At the most basic level, it means that no single individual should have control over two or more phases of a transaction or operation. Management should assign responsibilities to ensure a crosscheck of duties.

If a single person can carry out and conceal errors and/or irregularities in the course of performing their day-to-day activities, they have generally been assigned or allowed access to incompatible duties or responsibilities. Some examples of incompatible duties are:

1. Authorizing a transaction, receiving and maintaining custody of the asset that resulted from the transaction.
2. Receiving checks (payment on account) and approving write-offs.
3. Depositing cash and reconciling bank statements.
4. Approving time cards and having custody of pay checks.
5. Having unlimited access to assets, accounting records and computer terminals and programs. For instance, having access and using checks as the source documents to post to accounting records rather than using a check log or receipts.

There are four general categories of duties or responsibilities, which are examined when segregation of duties is discussed: authorization, custody, record keeping and reconciliation. In an ideal system, different employees would perform each of these four major functions. In other words, no one person should have control of two or more of these responsibilities. The more negotiable the asset, the greater the need for proper segregation of duties - especially when dealing with cash, negotiable checks and inventories.

In those instances where duties cannot be fully segregated, mitigating or compensating controls must be established. Mitigating or compensating controls are additional procedures designed to reduce the risk of errors or irregularities. For instance, if the record keeper also performs a reconciliation process a detailed review of the reconciliation could be performed and documented by a supervisor to provide additional control over the assignment of incompatible functions. Segregation of duties is more difficult to achieve in a centralized, computerized environment. Compensating controls in that arena include passwords, inquiry only access, logs, dual authorization requirements, and documented reviews of input/output.

Internal controls have to be effective. The first step is control design. When done properly, the design will include preventive controls to preclude undesirable activities and detective controls to alert management when exceptions occur. An appropriate design of preventive and detective controls is critical, but not sufficient. Control environments are dynamic. Changes in the business process have resulted in workload shifts. When this happens, roles and assignments are informally swapped to make the work load more equitable. As informal process changes evolve, the control design is often unintentionally compromised, sometimes with significant consequences.

When one individual has full responsibility for a single transaction, it is important to make sure that there are adequate mitigating controls throughout the entire process. Having trusted employees does not always protect against errors or fraud.

Currently the same member of the accounting staff receives, makes deposits, and reconcile the SSI bank statements. Due to the shortage of personnel to fully isolate individual duties, informal procedures are in place that reduces the risk of possible loss of funds due to misappropriation. However, a formal written policy and procedure should be addressed.

**Recommendation**

- Accounting adopt formal written procedures outlining specific duties and responsibilities for issuing, signing, and reconciling the SSI bank account.
- A review of all bank account transactions for SSI clients entered into QuickBooks should be approved by a Manager and reviewed at least monthly for accuracy, signed and dated.

**Management Response**

*“The Accounting department has formal written procedures outlining specific duties and responsibilities for issuing, signing and reconciling the SSI bank account. The department maintains a binder styled SSA Representative Payee Program which describes the payee program, its’ rules and guidelines and MHMRA’s policies and procedures for administering the program. The binder has not been maintained on a current basis and we are in the process of updating the binder.*

*The Accounting Manager is responsible for performing monthly reviews of transactions, files, documentation etc. to ensure that MHMRA is in full compliance with the Social Security Administration. This position was vacant most of FY 08 but has recently been filled.”*

**FINDING*****Client Listing***

As of August 31, 2008, MHMRA of Harris County has an official list of 136 clients receiving SSI funding. MHMRA has assumed the direct responsibility or entered into a fiduciary role with the clients to help manage their funds. However, after interviewing Agency staff, it was determined that there are between 16 – 66 clients that MHMRA staff have a direct involvement in writing, issuing, and reconciling their bank accounts. These clients are not part of the official accounting records of the Agency, and are not included in the audited financials of the Agency.

**Recommendation**

- It is recommended that the Divisions determine the exact number of clients that are receiving SSI funding and direct assistance in writing, issuing, and reconciling these accounts and report these through the official accounting records of the Agency.
- Accounting receive a copy of the client’s monthly bank reconciliation (and account/check transactions) signed by the client, client’s case worker and the case worker’s supervisor for those not utilizing the Accounting Department for their check processing and

**Management Response**

*“The Accounting department is in full agreement with the audit recommendation.”*

-S-

Henry E. Webb

Cc: Rose Childs, MSW, CSWM, Deputy Director, Mental Health Division  
Kenneth Collins, LMSW, Deputy Director, Mental Retardation Division  
Barbara Dawson, MSE, Deputy Director, Comprehensive Psychiatric Emergency Program Division  
Daryl Knox, MD, Medical Director, Comprehensive Psychiatric Emergency Program Division  
Sarah Flick, MD, Medical Director, Mental Retardation Services  
Sylvia Muzquiz, MD, Medical Director, Mental Health Services  
Jeanne Mayo, MS, JD, General Counsel  
Alex Lim, MBA, CPA, Chief Financial Officer  
External Audit Firm  
Audit Committee

**ATTACHMENT A**  
**SUMMARY OF RECOMMENDATIONS**  
**October 3, 2008**

Unit: Agency Accounting and Finance		
Area: Supplemental Security Income (SSI)		
Inherent Risk:	Low Moderate <b>High</b>	Control Environment: Well Controlled Acceptable <b>Poorly Controlled</b>
		Overall Risk: Low Moderate <b>High</b>
Type of Procedures: <b>Audit</b>		
Scope: * Using Internal Control Evaluation (ICEs) forms, documented the internal controls * Conducted a preliminary survey reviewing applicable policies and procedures, etc. * Interviewed various staff to obtain understanding of management controls * Examined detailed invoices/work orders, statements provided by the vendor, etc.		
Priority Rating:	Audit Recommendations:	
1	Reconcile, clear and adjust appropriate accounts within a 30-day time frame	
1	Management review and approve bank transactions for SSI client accounts monthly	
1	Agency incorporate all client accounts who receive more than passive help in managing bank account into official records (QuickBooks)	
Follow-up: Six Months		

**Priority Rating**

1. Implement immediately (30 - 90 days) - Serious internal control deficiencies; or recommendations to reduce cost, maximize revenues, or improve internal controls that can be easily implemented.
2. Work towards implementing (6 - 18 months) - Less serious internal control deficiencies, or recommendations that can not be implemented immediately because of constraints imposed on the unit (i.e. Budgetary, technological constraints, etc.).
3. Implement in the future (2-3 years) - Recommendations that should be implemented, but that can not be implemented until significant and/or uncontrolled events occur (i.e. legislative changes, buy and install major systems, or require third party cooperation, etc.).