



**Mecklenburg County  
Department of Internal Audit**

Department of Social Services  
Organizational Representative Payee Program  
Audit Report 1261

November 12, 2012

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**Internal Audit's Mission**

Through open communication, professionalism, expertise and trust, Internal Audit assists executive management and the Audit Review Committee in accomplishing the Board's objectives by bringing a systematic and disciplined approach to evaluate the effectiveness of the County's risk management, control and governance processes in the delivery of services.

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**Staff Acknowledgements**

Eric Davis, Auditor-In-Charge  
Crystal Turner, Internal Auditor  
Felicia Gadson, Senior Internal Auditor

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**Obtaining Copies of  
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MECKLENBURG COUNTY  
Department of Internal Audit

**To:** Dena Diorio, Director, Financial Services Department  
Michael Taylor, Acting Director of Services for Adults Division

**From:** Joanne Whitmore, Director of Internal Audit

**Date:** November 12, 2012

**Subject:** Organizational Representative Payee Program Audit Report 1261

The Department of Internal Audit has completed its audit of the Department of Social Services Organizational Representative Payee Program. The department director requested the Payee Program as the audit focus. The audit evaluated whether internal controls over eligibility, case management, accounting and reporting effectively manage key business risks inherent to those activities. Internal Audit interviewed key personnel; observed operations in effect as of October, 2011; reviewed policies, procedures and other documents; and tested specific transaction activity over processes for the period of July 1, 2008 through June 30, 2011.

Internal Audit conducted this audit under the guidance of the International Standards for the Professional Practice of Internal Auditing. These 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**OVERALL EVALUATION**

Overall, key risks for Organizational Representative Payee Program critical processes were managed to an acceptable level but some exceptions were noted. The Department does not routinely monitor client account balances or compare the Integrated Social Services Information case management system data to Advantage to ensure accuracy and completeness. Further, inactive Payee Program client conserved funds are not always returned to the Social Security Administration as required. Also, the Department does not have a formal process in place to review and update as necessary the Adult Social Work Services Payee Policy. Last, the Financial Services Department's Human Services Finance Division lacks adequate controls for some cash collection activities.

The issues listed below, as well as recommendations and management responses, are discussed in detail in the following pages. Internal Audit will conduct a follow-up review at a later date to verify that recommendations are implemented and working as expected.

## **ISSUES**

1. The Department does not routinely monitor client payee accounts.
2. Inactive client conserved funds are not always returned to the Social Security Administration as required.
3. The Department does not compare case management system data to Advantage.
4. The Department does not have a formal process in place to routinely review and update as necessary its Adult Social Work Services Payee Policy.
5. The Financial Services Department's Human Services Finance Division lacks adequate controls for some cash collection activities.

We appreciate the cooperation you and your staff provided during this audit. Please feel free to contact me at 704-336-2575 if you have any questions or concerns.

c: Harry Jones, County Manager  
Michelle Lancaster, General Manager  
John McGillicuddy, General Manager  
Bobbie Shields, General Manager  
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Tyrone Wade, Deputy County Attorney  
Robert Thomas, Senior Associate Attorney  
Board of County Commissioners  
Audit Review Committee

## **BACKGROUND**

The Department of Social Services (the “Department”) provides economic and social services to the County’s citizens providing programs such as the Organizational Representative Payee Program (“Payee Services”). The objective of Payee Services is to “provide financial management for the Social Security and SSI [Supplemental Security Income] payments to beneficiaries who are incapable of managing their Social Security or SSI payments.” The Department also manages supplemental income payments for disabled individuals from the State of North Carolina Special Assistance Program.

The Social Security Administration (SSA) oversees all Payee Services programs. To be eligible, clients must have a mental or physical disability and receive funds either from the SSA or the United States Department of Veterans Affairs (VA). The Retirement, Survivors and Disability Insurance (Social Security) and the Supplemental Security Income (SSI) programs are the two largest SSA programs.

### **New Client Assignment**

Once a client is accepted into the Payee Services program, he or she is assigned a social worker who helps file the necessary documentation to appoint the Department as the representative payee. If a client is transferring to the County’s Payee Services program from another payee services program, as allowed by the SSA, the social worker submits to the SSA a transfer request.

The SSA must appoint the Department of Social Services to serve as the client’s representative payee. The representative payee is responsible for managing the client’s benefit payments to serve his or her best interest. Representative payee duties include:

- using benefit payments to meet a client’s current and foreseeable needs
- conserving (saving) remaining funds after a client’s current needs are met
- maintaining accounting records of how funds were received and used
- reporting events to SSA that may affect clients' entitlement or benefit payment amount
- reporting any changes in the payee’s circumstances that would impact their performance
- report to SSA on how benefit payments were spent

Once the social worker is appointed, he or she sets up a new client account in the Department’s Integrated Social Services Information (ISSI) case management system, which maintains data such as clients served and disbursements made. The Financial Services Department’s Human Services Finance Division (HSF) has provided financial services to the Department of Social Services since August 4, 2011.<sup>1</sup> The HSF Division initiates a request to the Financial Services Department’s Financial Systems Unit to create a new client account number in Advantage, the County’s financial management system.

### **Benefit Payment Receipts**

The SSA sends all benefit payments directly to the County. Once SSA authorizes the payments, they are set up for direct deposit into a non-interest bearing collective Payee Services bank account, which holds all individual client funds. Individual client accounts in Advantage are updated when the deposit is prepared and recorded by the Financial Services Department.

All other benefit payments are received into the Department’s mail room, which is staffed by a third party vendor. If the benefit checks are issued from the State of North Carolina, mail room staff enters the check information into Research on the Net (RON), the Department’s online research system, and mail room

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<sup>1</sup> Prior to a County restructure in August 2011, the Department of Social Services performed its own financial activities.

staff generates a log from RON that contains the check information. Other benefit checks are entered by mail room staff onto a manual check log.

Mail room staff sends all benefit checks received and the manual check log to the HSF check room. The check room staff prints out the RON check log and compares it and the manual check log to the benefit checks to make sure they received all the checks. The check room staff then sends the checks and the manual log via courier to HSF to prepare the checks for deposit and records the deposit in Advantage.

<b>Benefit Payments</b>			
<b>Payment Type</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>
Number of Checks	157	79	51
Total of Checks	\$74,722	\$37,712	\$31,096
Number of EFT Payments	905	758	591
Total of EFT Payments	\$503,944	\$467,478	\$328,909

*Source: Auditor analysis of Advantage data, unaudited*

### **Budgeting and Disbursements**

The assigned representative payee, in collaboration with the client, develops a monthly budget based on the client's SSA and/or VA benefits and monthly expenses. Based on SSA guidelines, the client's funds are primarily used to meet basic needs such as shelter, food, medical care and utilities. Secondary use of the client's funds may include a personal allowance, clothing and transportation. Any remaining amounts are conserved on the client's behalf. The representative payee is required to notify the SSA when a client receiving SSI benefits has conserved funds in excess of \$2,000.

The social worker notifies all vendors involved with the client, such as landlords and utility companies, to send all future bills to the Department. The social worker reviews the client's incoming bills and prepares payment requests in ISSI. Management approves the requests based on department approval guidelines and forwards them to HSF for review, Advantage set-up and final approval and payment by the Financial Services Department's Accounting Unit.

<b>Payee Services Activity</b>			
<b>Activity Description</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>
Clients Served <sup>2</sup>	93	80	95
Payments Processed	4,542	3,359	2,278
Total Payment Dollars	\$567,940	\$550,310	\$411,236

*Source: Department data and auditor analysis of Advantage data, unaudited*

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<sup>2</sup> "Clients Served" excludes Area Mental Health clients.

## **Case Termination**

Payee Services are terminated for a client when he or she:

- regains ability to manage their funds
- moves outside of Mecklenburg County
- transfers to another Payee Services provider
- becomes incarcerated
- dies

In addition, the Department may terminate the client's payee services if the social worker and his or her supervisor determine the Department can no longer effectively serve the client.

When a client is terminated, the Department notifies the SSA and all vendors and works with HSF to reconcile and close the client's account. Unpaid bills are returned to the vendor and the social worker coordinates with HSF to return any conserved funds back to the SSA, or to the Clerk of Court if the client is deceased.

## ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES

### *County Manager's Overall Response to the Recommendations*

Management's response is appropriate in addressing Internal Audit's findings and recommendations.

**Issue 1:** The Department does not routinely monitor client payee accounts.

### **Risk Observation**

Nine out of 41 SSI client accounts sampled exceeded the \$2,000 maximum SSI conserved funds limit and had not been reported to the SSA. Account overages were in excess for a period of between two months and 22 months. Yet, the Payee Services program is required to notify the SSA when a SSI client conserved fund balance exceeds \$2,000.

Further, staff does not consistently comply with the Adult Social Work Services (ASWS) Payee Policy requiring assigned social workers to monitor client account balances twice a month or more to ensure the accuracy of deposits, expenditures and the level of conserved funds.

Without effective monitoring, the potential of non-compliance with SSI guidelines is increased. Moreover, client account errors or irregularities may not be timely detected and corrected.

### **Recommendation**

Internal Audit recommends the Department of Social Services ensure social workers routinely monitor Payee Services client accounts.

### **Management Response**

Agree. Payee accounts will be monitored on a monthly basis. When the reserve limit is exceeded for a period of time, a plan will be made by the social worker with consultation of the supervisor to appropriately allocate the additional money in excess of the \$2,000 in reserve.

Historically, the \$2,000 limit was reviewed and monitored by Department of Social Services staff on an annual, not monthly, basis as directed by the Social Security Administration. This program has been routinely audited by the Social Security Administration and the annual review of the \$2,000 limit was always deemed reasonable by the Social Security Administration auditors. The last Social Security Administration audit occurred in June, 2010. Based on Internal Audit's recommendation, Department of Social Services social workers will begin monitoring for the \$2,000 limit on a monthly basis going forward as described above. A new procedure involving supervisor oversight to ensure the monitoring is occurring will begin December 1, 2012.

**Issue 2:** Inactive client conserved funds are not always returned to the Social Security Administration as required.

**Risk Observation**

Thirty-nine inactive client accounts totaling over \$22,000 with individual balances between five cents and \$4,338 had no receipt or disbursement activity since FY 2006. Yet, the conserved funds were not returned according to SSA guidelines. If conserved funds are not returned timely, the Department could violate SSA guidelines and be subject to fines or penalties.

**Recommendation**

Internal Audit recommends the Department of Social Services coordinate with the Financial Services Department's Human Services Finance Division to promptly identify all inactive Payee Services client accounts and return any conserved funds as required. Going forward, management should ensure staff periodically reviews client accounts to timely identify inactive accounts and return conserved funds.

**Management Response**

Agree. There is a balance of \$12,205.15 currently related to 19 individual accounts that Department of Social Services has no information regarding the status of the individuals after extensive research. Since more than seven years has elapsed since there has been activity in these accounts, the funds will be returned to Social Security Administration by November 30, 2012.

Advantage payee data is now reconciled on a monthly basis. This control will identify inactive accounts and prevent them from remaining open with no activity for an unmonitored period of time.

**Issue 3:** The Department does not compare case management system data to Advantage.

**Risk Observation**

The Department does not perform a reconciliation comparing Payee Services client account balances and client records in ISSI to Advantage data. Ninety client accounts recorded in Advantage were not in ISSI and 13 client records in ISSI did not have Advantage accounts established. As a result, management cannot ensure client account data is accurate.

In addition, the Accounting Unit policy require departments with subsidiary financial systems not integrated to Advantage reconcile those systems to the related Advantage general ledger accounts, which helps ensure accuracy and completeness.

**Recommendation**

Internal Audit recommends the Department of Social Services require staff independent of the social worker function conduct routine reconciliations between the ISSI and Advantage systems. The reconciliations should be documented and subject to management's review and approval.

### ***Management Response***

Agree. Management agrees that a reconciliation should be performed but recommends that it be based upon the Advantage system (the financial system of record) and social workers' budget Excel spreadsheets that will be created for each client, not with ISSI. ISSI is a Department of Social Services system that contains payee account information, but is not used for payee financial account management. ISSI is used to create payment requests. Social Workers will track payments and balances for payee accounts using an Excel spreadsheet maintained for each individual. Monthly, Department of Social Services staff will use detailed Advantage reports to reconcile the Advantage balance to the balance per the excel spreadsheet for each individual. This will begin December 1, 2012.

**Issue 4:** The Department does not have a formal process in place to routinely evaluate and update as necessary its Adult Social Work Services Payee Policy.

### **Risk Observation**

The current Department of Social Services' ASWS Payee Policy has not been updated since March 2008. The Department receives notices from external sources and communicates external and internal changes to staff via email, training and other methods. It does not, however, have a formal process in place to ensure its Adult Social Work Services Payee Policy adequately addresses or incorporates changes in compliance, management and operational practices. Policies and procedures are important control activities to help ensure management's directives are carried out while mitigating risks that may prevent the organization from achieving its objectives.

### **Recommendation**

Internal Audit recommends the Department of Social Services develop a formal, documented process to review and modify as necessary its ASWS Payee Policy. The written policies and procedures should have a framework that establishes, at a minimum:

- a. frequency of policy and procedure reviews
- b. assumptions, criteria, methods, processes and techniques used to develop and review relevant policies and procedures
- c. roles, responsibilities and selection criteria of participants involved in the development and review process
- d. a standard format for policies and procedures
- e. training for relevant staff
- f. communication to appropriate internal and external stakeholders

### ***Management Response***

Agree. The Department of Social Services does not currently have a written policy regarding the frequency of reviewing all policies. Management agrees that policies should be routinely reviewed and will draft a policy regarding the frequency of Department of Social Services policy reviews and a method for documenting that the reviews occur. This will begin December 1, 2012.

**Issue 5:** The Financial Services Department's Human Services Finance Division lacks adequate controls for some cash collection activities.

### **Risk Observations**

- A. Checks are not restrictively endorsed upon receipt. The HSF Division, who since August 2011 prepares Payee Services checks for deposit, first receives the checks in the HSF mail room before routing by courier to another location where they are endorsed and prepared for deposit. County policy, however, requires checks to be immediately endorsed upon receipt. As a result, the checks are more susceptible to theft.
- B. While HSF check room staff uses a manual log to document the change of custody for some checks, they do not record the change in custody when transferring special assistance checks to another location for deposit preparation. As a result, there is no accountability if checks are lost or stolen.

### **Recommendations**

Internal Audit recommends the Financial Services Department's Human Services Finance Division:

- A. Restrictively endorse checks immediately upon receipt into the check room.
- B. Ensure its current process documents the change of custody for all checks, including special assistance checks.

### ***Management Response***

Agree. All processes recommended by Internal Audit are currently in place and part of HSF procedures as of October 2012. The current procedures for depositing cash and recording cash receipts are:

- a. all funds collected by the County are subjected to proper physical safeguards
- b. funds received at the check room are prepared for deposit the day received. The armored security company is contacted for a pick-up for the next morning and deposits are locked in a safe overnight.