

**REVIEW GUIDELINES FOR
SERVICE ORGANIZATIONS
PROVIDING ELECTRONIC BENEFITS
TRANSFER SERVICES
FOR GOVERNMENT PROGRAMS
IN ACCORDANCE WITH SAS-70**

*Prepared Jointly by a Task Group
Comprised of
Federal and State Audit and Program Agencies
and Member Firms of the AICPA*

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GLOSSARY

Acquirer	An entity that owns or operates automated teller machines (ATM) and/or point-of-sale (POS) devices.
Automated Clearing House	A network operated by the Federal Reserve and financial institutions to electronically transfer funds between financial institutions.
Benefit Card	A plastic card issued to program participants which the participants use to access their government benefits.
Benefit Provider	Retailers, including ATM operators, that provide cash or sell food or merchandise to program participants.
Card Holder	An individual who has been issued or authorized to use a benefit card.
Core Financial Services	Services that include establishment and maintenance of recipient accounts; transaction processing; settlement; and system reporting to government agencies.
Eligibility Systems	Government operated systems that determine eligibility and amount of program benefits. These systems interface with the service organization systems.
Issuer	A commercial or government entity that issues benefit cards.
Personal Identification Number	A four to six character alpha numeric code issued to, or selected by, the cardholder. The cardholder uses the personal identification number (PIN) with the benefit card to initiate a transaction.
Service Provider Organization	An entity that has entered into a contract with a government agency to provide EBT services. The service organization maintains accounts on behalf of cardholders, provides transaction processing, and initiates benefit provider settlement.
Service Auditor	An auditor engaged to report on the processing of transactions by the service organization.
Settlement	A transfer of government funds to benefit providers to satisfy processed transactions.
User Organization	A Government entity that contracts for EBT service organization services.
User Auditor	An auditor engaged to audit financial statements of the user organization.

ACRONYMS

ACH	Automated Clearing House
AICPA	American Institute of Certified Public Accountants
ANSI	American National Standards Institute
ASAP	Automated Standard Application for Payments
ATM	Automated Teller Machine
CFR	Code of Federal Regulations
EBT	Electronic Benefit Transfer
EFT	Electronic Funds Transfer
ETA	Electronic Transfer Account
FMS	U.S. Department of the Treasury's Financial Management Service
FNS	Food and Nutrition Service
FSP	Food Stamp Program
HHS	U.S. Department of Health and Human Services
ISO	International Standardization Organization
NACHA	National Automated Clearinghouse Association
NIST	National Institute of Standards and Technology
OMB	Office of Management and Budget
PIN	Personal Identification Number
P.L.	Public Law
POS	Point of Sale
SAS	Statement on Auditing Standards
SSA	Social Security Administration
TANF	Temporary Assistance for Needy Families
USC	United States Code
USDA	U.S. Department of Agriculture
WIC	Supplemental Nutrition Program for Women, Infants, and Children

INTRODUCTION

PURPOSE

This review guide is intended to assist independent auditors engaged to perform reviews of service organizations¹ providing electronic benefits transfer (EBT) services to Federal and State agencies in accordance with the American Institute of Certified Public Accountant's (AICPA) Statement on Auditing Standards (SAS) 70.² The review performed using this guide will include a report on controls placed in operation by the service organization including tests on the operating effectiveness of those controls (SAS 70, Type II). Federal and State auditors performing financial audits required by the Chief Financial Officers Act, the Single Audit Act, and State statutes will rely on the service organization's review report. Service organization auditors³ should use this guide as a supplement to SAS 70. The guide should be used by service auditors engaged to review service organization fiscal year operations beginning after June 30, 1998. The guide provides the minimum review coverage necessary to meet the needs of the various financial auditors.

APPLICABILITY

The Single Audit Act of 1984 requires States administering Federal assistance programs to have an audit performed covering the operations of the State including a determination of whether the State's financial statements are fairly presented. The Chief Financial Officers Act and the Government Management Reform Act require Federal agencies to issue financial statements. As the government's direct processing agent, the EBT service organization meets the AICPA's *Professional Standards* definition of a service organization. A financial statement auditor should consider the use of service organizations and that organization's ability to record, process, and report financial data when relevant to State or Federal agency statements being audited. A limited number of EBT processing service organizations support a large number of State and Federal agency financial statements. For each service organization, it is more efficient and cost effective to perform a single service organization review using the AICPA SAS No. 70 standards than each State and Federal agency financial statement auditor performing a separate review of operations. The results of the service organization review should be distributed to the financial statement auditors, as needed.

A service organization SAS 70 review must include EBT operations to meet the needs of government financial auditors. This guide is intended to provide direction to the auditors of EBT system service

¹ A service organization is defined in Statement on Auditing Standards (SAS) No. 70, *Reports on the Processing of Transactions by Service Organizations*, as an entity (or segment of an entity) that provides services to the user organization (i.e. Federal or State agency). Services provided would include executing transactions and maintaining the related accountability and recording transactions and processing related data.

² SAS 70, *Reports on the Processing of Transactions by Service Organizations*.

³ The auditor who is engaged to report on the processing of transactions by the service organization.

organizations. The guide documents the minimum coverage needed. EBT processing coverage may be included as part of a general SAS 70 review which includes other business operations of the service organization. The guide does not impose any new compliance requirements and does not supersede existing requirements established in Office of Management and Budget (OMB) Circular A-133 or by the AICPA. Auditors should apply professional judgement and use procedures they deem necessary in the circumstances.

BACKGROUND

HISTORY

The Report of the National Performance Review, From Red Tape to Results, called for the rapid development of a nationwide system to deliver government benefits electronically. The report cited improved service to customers, increased government efficiency, and reduced program administrative costs as advantages of using electronic technologies. Congress required electronic delivery of Federal benefits in the Debt Collection Improvement Act of 1996 (P.L. 104-134) and under Welfare Reform (the Personal Responsibility and Work Opportunity Reconciliation Act, P.L. 103-193.)

The Federal government cannot develop a nationwide EBT system alone. States administer and jointly fund some of the programs. For participants with financial institution accounts, direct deposit is the most cost effective means of delivering cash benefits. However, a substantial portion of benefit participants do not have access to financial institution accounts. In these cases, EBT is a solution.

EBT uses electronic funds transfer technology developed by the commercial sector to provide access to a full range of government benefits. EBT provides benefit access through automated teller machines (ATM) and retailer point-of-sale (POS) terminals. It replaces the multiple paper-based benefit systems with an integrated electronic system to deliver benefits.

Numerous government programs will use EBT to replace paper delivery systems. Participating programs can be categorized as cash and non-cash programs. Cash programs allow participants to generally use their benefits for any purpose while non-cash programs specify how funds will be used. Cash programs include Federally administered programs, such as Supplemental Security Income, and State funded programs, such as General Assistance. The U.S. Department of Agriculture (USDA) Food Stamp Program (FSP), a State administered program, limits benefits to the purchase of food items and represents a major non-cash program. Overall, more than \$100 billion of government benefits is expected to be delivered by EBT.

ENTITIES INVOLVED IN THE EBT PROCESS

Partnerships between Federal and State governments and the participation of the financial service community are necessary to create the EBT system.

In direct Federal administered programs, the Federal government establishes recipient eligibility, determines the amount of benefits, and contracts with processing service organizations to provide EBT services. In other programs, States administer the programs for the Federal government. The States determine eligibility, calculate benefit amounts, and contract for EBT services. The Federal government may establish program regulations, perform administrative oversight and partially fund these State administered programs.

EBT processing service organizations operate the EBT system. The service organizations arrange for use of communication networks, maintain benefit accounts, process transactions, arrange for the

payment of transactions, and perform customer service functions. The service organizations simultaneously operate EBT systems delivering both Federal and State administered benefits.

EBT OPERATIONS - CASH PROGRAMS

Federal

The administering Federal agency determines eligibility for the program and the amount of benefits. Generally, benefits are distributed through direct deposit into participants' financial institution accounts. In those cases where a recipient does not maintain a financial institution account, the Federal agency establishes an account with an EBT service organization. Generally the service organization mails EBT benefit cards, a magnetic ATM card, with training materials to the participants. In some instances rather than issuing a separate Federal EBT card, Federal benefits may be assigned to a State issued card at the State's request. Examples of Federally administered EBT programs include veteran's assistance, social security, and Federal pensions.

Each month the administering Federal agency prepares an electronic file documenting the amount of benefits for each recipient. The Federal agency sends the file to the U.S. Department of the Treasury, Financial Management Service (FMS). FMS electronically sends the benefit file and the Federal funds for the benefits to the service organization.

Participants can withdraw their benefits from either an ATM or at designated retailers. The EBT service organization debits the recipient's account as they withdraw funds. Once each day the EBT service organization pays the benefit providers, the ATM networks or retailer, for the amount of transactions completed from Federal funds. The EBT service organization transfers the Federal funds to the designated accounts of the benefit providers using the Automated Clearing House (ACH) network.

Veteran's Benefits - All benefits payments to veterans, their dependents, and survivors from the Department of Veterans Affairs will be electronically deposited into their bank accounts by 1999. Under the Debt Collection Improvement Act of 1996, all federal agencies are required to use Electronic Funds Transfer (EFT) methods to transfer funds to their benefits recipients. The act requires that this be accomplished by January 1, 1999. Individuals who do not have an account with a financial institution will need to participate in a governmentwide EBT program. Benefit recipients will be assigned an account in their name at a federally insured financial institution that allows them to access their funds at a reasonable cost and has the same consumer protections as other accounts at the same financial institution.

Social Security - The Social Security Administration (SSA) will also implement the EFT provision of the Debt Collection Improvement Act of 1996 which requires all Federal payments, with the exception of tax refunds, to be made electronically by January 1, 1999. This will affect how benefits are delivered to more than 10,000,000 recipients of SSA benefits each month. SSA has been working closely with the Treasury Department to identify reasonable and low cost methods of delivering

benefits to the large portion of SSA check recipients who are unbanked. SSA is making use of direct deposit, low-cost electronic transfer accounts, and EBT.

State

State-administered cash programs use the same EBT service organization and EBT benefit card as the FSP (see Food Stamp Program under non-cash programs below). The State determines program eligibility and calculates the benefit amount. The EBT service organization maintains a database that keeps track of each recipient's benefits. Funding for the programs varies. Some are totally or partially Federally funded. In these cases at the beginning of each month, the Federal government transfers funds to the State's financial agent. Transaction processing, debiting of the recipient's account and crediting to the benefit provider, is the same as the FSP.

Temporary Assistance for Needy Families (TANF) - Under TANF, a program funded by the U.S. Department of Health and Human Services (HHS), States and territories receive block grant allocations to cover benefits, administrative expenses and services. States determine eligibility and benefit levels and services provided to needy families. Eligible recipients can receive cash benefits using an EBT card at ATM or POS terminals. Under TANF, an initial assessment of recipients' skills is required. With few exceptions, recipients must work after two years on assistance.

States can also use EBT to provide State-funded assistance (general assistance) to eligible recipients. State funded programs also settle through the ACH. Settlement procedures vary depending upon card issuer contractual arrangements with the States.

- *State Payment* - the service organization sends a listing of the amount each benefit provider processed to the State's financial agent (for example the State Treasury). The financial agent then distributes the funds to the benefit provider on the next banking day.
- *Issuer Payment* - EBT service organization draws funds from the State's financial agent. The EBT service organization then transfers funds to the benefit provider.

EBT OPERATIONS - NON-CASH PROGRAMS

Food Stamp Program

States administer and manage the FSP for the USDA, Food and Nutrition Service (FNS). Program eligibility and benefit determinations are made by the State. All participants in the EBT operational area receive benefits through the EBT system. Similar to the Federal cash programs, an account is established for program participants and participants are issued benefit cards. Participants use FSP benefits to purchase food items at FNS-authorized retailers.

The States prepare and send an electronic file documenting the amount of benefits for each recipient to the EBT service organization. The States transmit, on a daily basis, updates of authorized benefits to the EBT service organization. Participants purchase food using POS terminals located at the retailers. The EBT service organization debits the recipient's account and credits the retailer's account for each approved transaction.

Each day the EBT service organization withdraws the FSP funds needed to pay the retailers for approved transactions. This is generally accomplished as follows. The Federal Reserve Bank credits the service organization's account at their designated financial institution. The service organization sends the financial institution instructions, an ACH tape detailing the retailer financial institution accounts and amounts, for distribution of the FSP funds. The designated financial institution uses the ACH network to distribute these funds to the retailer financial institution accounts.

Supplemental Nutrition Program for Women, Infants and Children (WIC)

The WIC Program is administered by FNS through State agencies. The program provides nutritious food items to eligible participating women, children, and infants. Participants obtain eligible food items through participating vendors using a WIC food instrument or voucher. Several States are in the process of converting their WIC programs to an EBT delivery system. This review program will apply to the WIC program for States that have implemented EBT systems for WIC.

STANDARDS FOR CONDUCTING THE ENGAGEMENT

This engagement should consist of reviewing operations of entities providing EBT services for government entities. Auditors should review the processing of EBT system operations and transactions by the service entity for use by government financial auditors. The engagement should be performed in accordance with AICPA's SAS 70, Reports on the Processing of Transactions by Service Organizations. The service organization auditor should obtain an understanding of the EBT system internal control structure, including the policies and procedures placed into operation by the service organization. The auditor should perform tests and report on the operating effectiveness of the controls. The auditor should plan the engagement to ensure the review will adequately meet these guidelines.

REVIEW PROCEDURES

I. CONTROL ENVIRONMENT

DESCRIPTION

The control environment represents the collective effect of various factors on the establishment, design, and operation of EBT system policies and procedures. The environment reflects the overall attitude, awareness and actions of management and employees concerning the importance and emphasis of controls. The auditor must obtain a sufficient understanding of internal controls to plan the engagement.

OBJECTIVE

To ensure that appropriate controls, as they relate to an audit of financial statements, are in place and operating effectively during the period under review. This includes the review of the established control practices and assessment of the EBT service organization's commitment to implement the controls.

GUIDANCE

OMB Circular A-130, Appendix III, *Security of Federal Automated Information Resources*, as revised February 1996

Statement on Auditing Standards No. 55, *Consideration of the Internal Control Structure in a Financial Statement Audit*

Statement on Auditing Standards No. 78, *Consideration of Internal Control in a Financial Statement Audit: Amendment to SAS No. 55*

A. CONTROL AREA: Control Environment

Controls are established to provide reasonable assurance that the EBT system functions in an efficient and appropriate manner consistent with its policies, and complies with applicable laws and regulations.

REVIEW PROCEDURES

Also see Section II-B for specific steps to address security management in the control environment.

1. Assess the control environment of the organization.

- a. Obtain an understanding of the EBT system policy and operating procedures.
 - b. Determine whether top management is actively involved in the development and enforcement of security and internal control practices and procedures affecting the EBT process.
 - c. Evaluate the internal control awareness of management and employees involved in the execution of the EBT process.
2. Assess the organization's identification and analysis of relevant risks to the EBT process.
 3. Assess the organization's monitoring process. If the service organization has an internal audit department, evaluate the adequacy of the internal auditors' review of the EBT process.
 4. Assess the control activities of the organization. The auditor should obtain information necessary for a report on controls placed in operation by the organization through discussion with appropriate service organization personnel and through reference to various forms of documentation including system flow charts and narratives. The auditor should determine whether the description provides sufficient information for user auditors to obtain an understanding of those aspects of the service organization's controls that may be relevant to a user organization's internal controls.
 5. Determine standards established for employee conduct including handling of data subject to the Privacy Act of 1974 (5 USC 522a). Test a sample of employees to ensure that they are aware of the standards and that the organization is actually using the standards.
 6. Determine and document the scope of the service organization's EBT activity including the types of programs serviced (i.e., cash, non-cash, etc.).
 7. Document the core financial services under contract by the service organization or any subservice organization for each program and any processing variations for States or direct Federal programs. If significant, third party processor and ATM networks should be included. Use this information in the overall assessment of risk.
 8. Perform an overall assessment of control risk for cash and non-cash programs.
 9. Select a transaction sample for testing based upon the risk assessment. A single sample of transactions is acceptable if the control systems governing these transactions are consistently applied to all transactions subject to review.

For example, if an EBT service provider serves 10 States, the sample does not need to include representative transactions from each State for the controls to be validated.

However, the controls must be consistently applied to all transactions. If a State relies on testing a sample of transactions that do not include transactions specific to that State, the transmittal/opinion letter will reflect that the controls, that were tested, are consistently applied to all transactions, including those of that State.

If the control systems differ between States, a single sample would not be adequate and the auditor is expected to test all these systems.

II. SECURITY MANAGEMENT CONTROLS

DESCRIPTION

Methods and measures designed to protect EBT systems from significant threats and hazards.

OBJECTIVE

To protect the reliability of the EBT system and minimize loss of resources. Security includes assigning security functions, establishing responsibility and duties for all EBT employees, and developing and implementing contingency and disaster recovery procedures.

GUIDANCE

OMB Circular A-130, Appendix III, *Security of Federal Automated Information Resources*, as revised, February 1996

National Institute of Standards and Technology (NIST), *Special Publication 500-172, Computer Security Training Guidelines*, November 1989

National Institute of Standards and Technology, *Special Publication 800-12, An Introduction to Computer Security: NIST Handbook*, December 1995

National Institute of Standards and Technology, *Special Publication 800-14, Generally Accepted Principles and Practices for Securing Information Technology Systems*, December 1996

USDA Food and Consumer Service, *Electronic Benefit Transfer System Security Guideline*, January 1995

Title 7 Code of Federal Regulations (CFR) 274.12(h)(3), USDA, Food Stamp Program, *Electronic Benefit Transfer Issuance System Approval Standards - System Security*

Title 7 CFR 277.19(p), USDA, Food Stamp Program, *Automated Data Processing System Security Requirements and Review Process*

A. CONTROL AREA: Security Management Controls - General

These controls are designed to prevent or minimize losses to EBT resources due to the lack of security policies and procedures.

REVIEW PROCEDURES

1. Determine whether responsibility for the development and enforcement of a security policy is at an appropriate organizational level to ensure/enforce compliance by service organization personnel.
2. Establish whether the security policy and procedures are documented and the related information is effectively disseminated to appropriate staff.
3. Evaluate whether security management policies address the security and privacy needs of the EBT process including confidentiality of data.
4. Evaluate the process for reporting any security incidents or observed irregularities to proper officials and oversight authorities.
5. Review the adequacy of policies established for filing, retention and destruction of EBT system files.

B. CONTROL AREA: Security Management Controls - Employee

These steps may be included in Section I.

These controls are designed to provide for an adequate investigation of employees before hiring and to monitor employee training in security and privacy matters.

REVIEW PROCEDURES

1. Select and test a sample of employees to ensure employment practices adhere to policies established for performing background investigations of employees prior to employment. If background checks are not performed, identify other compensating controls.
2. Assess procedures for conducting and documenting employee conduct and security system training by testing a sample of employees to ensure training has been received and documented.
3. Assess the service organizations policy on segregation of key responsibilities including application programming, systems and operation, and financial duties. Review personnel functions to ensure proper segregation of duties.

C. CONTROL AREA: Security Management Controls - System

These controls are designed to make service organization employees accountable for their transactions (i.e., manual vouchers) and allow review of employee transactions by security, management and audit personnel. (Note: Testing of interface system processing between processors and sub-contractors is tested in the processing section of this review guide.)

REVIEW PROCEDURES

1. Test a sample of transactions to evaluate the adequacy of the audit trail including access controls and the extent of logging.
2. Test a sample of transactions to evaluate security provisions for audit trails such as read-only access.

D. CONTROL AREA: Security Management Controls - Physical

These controls prevent the physical intrusion by unauthorized persons into facilities that house systems used to process, transmit, or store EBT data, equipment, material, or documents. These controls prevent or minimize losses of EBT resources due to natural or man-made events. They also include the plans and procedures necessary to continue EBT processing in the event of a disaster.

REVIEW PROCEDURES

1. Review security arrangements and procedures that limit physical access to EBT system hardware, software, and data media, including back-up media. Physical access should be restricted to staff required to execute EBT operations. Test a sample of employees with access to ensure access to EBT operations is a necessary job function.
2. Review processes and controls providing for the physical safeguarding of sensitive data, including backed-up data. The review should include passwords that control access to sensitive EBT files, personal identification numbers (PIN) and privacy data. Test access to system with a sample of employees to ensure access is controlled.
3. Review the procedures for removing an employee's ability to access EBT hardware, software and data media when the employee is terminated or has his/her duties changed. Test a sample of terminated and/or reassigned employees to evaluate the adequacy of these controls.
4. Assess the adequacy of environmental controls established, such as maintenance schedules, fire suppression equipment, water detection and protection considerations, and the availability of an uninterruptable power system designed to protect and ensure

continued operations. Consider whether policies and procedures assure proper maintenance of hardware and whether periodic facility inspections are performed.

5. Review disaster recovery and contingency plans to assure EBT system processing can continue in the event of disruption. Determine whether the plan provides for periodic testing at the backup facility and that the auditee has a contractually protected access right to the facility. Ensure that the processor has performed any necessary testing at the backup facility.
6. Review the sufficiency and frequency of backup arrangements for key applications, processes and files. Test a sample of files/applications to ensure backups are maintained as required.

III. ACCESS CONTROLS

DESCRIPTION

Procedures designed to limit access to EBT system information to only authorized users.

OBJECTIVE

To minimize losses of EBT resources due to intentional or unintentional man-made events. These include practices to protect EBT software and data files from unauthorized access or modification.

GUIDANCE

USDA Food and Consumer Service, *Electronic Benefit Transfer System Security Guideline*, January 1995

Title 7 CFR 274.12(h)(3), USDA, Food Stamp Program, *Electronic Benefit Transfer Issuance System Approval Standards - System Security*

National Institute of Standards and Technology (NIST), *Special Publication 800-12, An Introduction to Computer Security: NIST Handbook*, December 1995

National Institute of Standards and Technology, *Special Publication 800-14, Generally Accepted Principles and Practices for Securing Information Technology Systems*, December 1996

A. CONTROL AREA: Access Controls - Logical/System Access

These controls are designed to prevent access by unauthorized persons to the systems that process, transmit or store EBT data.

REVIEW PROCEDURES

1. Review the standards established to limit access to EBT files or processes based upon users needs. Include procedures used to authorize access and grant emergency access. Test a sample of employees with access to ensure the need for their access.
2. Determine the extent to which computers containing EBT data and software are linked to external networks. Review the controls (i.e. firewalls) to prevent access to sensitive data from an external network. This includes modem connections to any computer on the EBT network.

3. Identify if a general purpose access control security package is used. Perform tests to determine if this software package is implemented in a manner that enhances the security environment, including the review and evaluation of security parameters and user ID and password controls.
4. Determine if user ID's are immediately removed for personnel no longer needing access including individuals no longer employed by the service organization. Test a sample of employees to ensure access authority has been removed.
5. Review standards established to control access to system files (i.e. password files), system software (i.e. operating system), data bases and sensitive applications (i.e. security applications). Test a sample of these access controls and evaluate their effectiveness.
6. Review access rights of programmers assigned to different but relevant applications and computing platforms for appropriateness of access rights. Consider whether practices and procedures provide for segregating duties (operations, operating systems, application systems, and data storage) such that no individual interacting with the system can exercise inordinate control over EBT transactions.
7. If access control software is in operation, assess whether control procedures ensure that security violations are reported and investigated. Review a sample of reported security violations and assess the effectiveness of the review and investigation procedures.
8. Review and evaluate methods used to ensure individual accountability.
9. Assess controls established to prevent a State from reviewing or altering data for another State. Test a sample of controls to prevent access.

B. CONTROL AREA: Access Controls - Encryption

Controls should provide a level of assurance that persons accessing systems that process, transmit, or store EBT data are whom they claim to be (identification and authentication). These practices include protection of the methods of authentication (encryption of key material).

REVIEW PROCEDURES

1. Evaluate the practices and procedures for controlling access to identification/authentication data (encryption key) during storage and transmission. Assess the physical security measures for computers that contain encryption software and/or private keys.

2. Determine whether EBT data is protected by encryption through both the transmission and storage processes, including backed up data. Assess the adequacy of the encryption method and the internal process for deciding what will be encrypted.

IV. SOFTWARE DEVELOPMENT AND MAINTENANCE

DESCRIPTION

Procedures designed to minimize implementation of unauthorized programs or modifications to existing programs. Risks include attempts to fraudulently obtain government funds, disruption of system operations, and implementation of untested programs.

OBJECTIVE

Development of and changes to business applications and related supporting systems software are appropriately documented, authorized, tested, and approved prior to implementation.

GUIDANCE

USDA Food and Nutrition Service, *Electronic Benefit Transfer System Security Guideline*, January 1995

National Institute of Standards and Technology, *Special Publication 800-12, An Introduction to Computer Security: NIST Handbook*, December 1995

National Institute of Standards and Technology, *Special Publication 800-14, Generally Accepted Principles and Practices for Securing Information Technology Systems*, December 1996

A. REVIEW PROCEDURES

1. Review controls for ensuring that changes to the production program, including emergency procedures, are tested, authorized and approved before being put into operation. Review a sample of application and systems software changes for each significant computing platform for appropriate approvals.
2. Review a list of users authorized to approve program change requests or requests for development. Compare these users' access rights for inappropriate access to production program libraries and data files.
3. Review a sample of application and systems software changes to ensure:
 - changes were implemented in a timely manner;
 - testing is documented; and
 - changes are appropriately approved.
4. Review a sample of new applications and systems software implemented during the review period. Ensure appropriate user involvement, testing, and signoff on key

system functions. (Note: Users may include service organization's internal audit staff.)

5. Review systems documentation for a sample of new and existing relevant applications to determine if current and complete in accordance with programming and documentation standards used by the service organization.
6. For vendor-supplied and/or maintained applications, review a sample of changes supplied by the vendor for (a) timely implementation into production by appropriately authorized personnel, and (b) documented user test involvement, where appropriate.
7. Determine whether the service organization follows a system development methodology.

V. PROCESSING CONTROLS

DESCRIPTION

These controls are designed to provide relevant information and feedback on a timely basis regarding all transactions processed by the system.

The EBT systems indirectly provide FSP program accounting data to FNS' financial system. The Federal Reserve Bank of Richmond operates the Account Management Agent System for FNS. Service organizations provide the daily FSP benefits updates to the Account Management Agent System. The Account Management Agent System transfers the benefit data along with Federal funding requests extracted from the Automated Standard Application for Payments (ASAP) system to FNS' financial system. (Note: See the FSP portion of Section VI. Settlement Controls for Participant Benefits of this review guide for a description of ASAP functions in the EBT environment.)

OBJECTIVE

Ensure timely and accurate processing of on-line and manual transactions. Processing includes error identification and correction practices, system reporting, and inquiry capability to validate and verify transactions.

GUIDANCE

USDA Food and Consumer Service, *Electronic Benefit Transfer System Security Guideline*, January 1995

Title 7 CFR 274.12(h)(3) and (j), USDA, Food Stamp Program, *Electronic Benefit Transfer Issuance System Approval Standards*

A. REVIEW PROCEDURES

1. Review policies and procedures of the service organization to ensure the totality of transaction processing. Test a sample of transactions to ensure the following controls are in place:
 - a. monitoring and investigation of any unsuccessful file transfers;
 - b. recovery or reproduction of lost or damaged data;
 - c. edit checks are examined for unusual conditions;
 - d. reconciliation of input and output of transactions processed;
 - e. logging and storing all transactions; and
 - f. monitoring of rejected transactions and account adjustment actions.

2. Review the practices and procedures of the service organization that ensure the proper identification, validation, and acceptance of all EBT transactions processed. Test a sample of transactions to evaluate the effectiveness of the validation and acceptance controls.
3. Evaluate procedures to review, approve, and amend direct data entry such as adjustments. Test a sample of transactions to ensure proper review and approval.
4. Test a sample of reports of the service organization (that are used by States to ensure program reliability) to ensure accurate and complete compilation and reporting of transactions and performance data.

Reports prepared by the service organization provide information on their performance as well as the characteristics of the transactions processed. These characteristics provide the service organization and the State contracting agencies with information that is necessary to determine program reliability and to detect improper or fraudulent transactions. The auditor should perform the necessary audit procedures to assess the completeness and accuracy of significant service organization reports and the reliance that can be placed on each. Appendix B lists examples of output reports.

5. Assess controls established for entering daily FSP purchase activity into the Account Management Agent System. Test a sample of Account Management Agent System entries to evaluate the effectiveness of the controls.
6. Test a sample of controls to determine whether output controls effectively prevent unauthorized or inadvertent reporting of sensitive EBT data (PINs, privacy data).
7. Test a sample of embedded audit modules for effectiveness.
8. Determine if the EBT system uses any computer based fraud detection applications. Identify procedures used to monitor and resolve exceptions and determine if procedures are reasonable.
9. Test a sample of transactions to ensure controls are in place for client accounts:
 - a. Records account for the activity and events for each client account, including each deposit and each withdrawal/charge/use.
 - b. Records identify client accounts in which benefits are not withdrawn/used beyond pre-established periods (i.e., identify inactive accounts for which deposits are still made).
 - c. Individual accounts cannot be credited with benefits in excess of authorized amounts.

VI. SETTLEMENT CONTROLS FOR PARTICIPANT BENEFITS

Note: This section describes procedures regarding settlement and reconciliation between the EBT processor and State agencies. In some locations, settlement and reconciliation would be performed at the county level. In these situations, the review procedures should be applied to county-level operations.

DESCRIPTION

Participants use their EBT card to access cash and non-cash benefits. Their benefit authorization balance is reduced with each transaction. Once each day, the EBT system settles with ATM networks and EBT retailers (settlement endpoints). Network member financial institutions and retailers are paid an amount equal to the outstanding liability (benefits they provided) during the day. Several types of payment processes exist in the EBT environment. **Appendix A** provides a description of the various payment processes.

Title 31 USC §3512(b) requires Federal agencies to establish and maintain systems and internal controls to safeguard their program assets. The Single Audit Act Amendments of 1996, P.L. 104-156 §1(b), extended these requirements to Federal awards administered by non-Federal entities.

OBJECTIVE

Ensure government funds are timely and accurately distributed to the benefit providers and disputed transactions are resolved in a timely manner.

GUIDANCE

Title 7 CFR 277.6, USDA, Food Stamp Program, *Standards for Financial Management Systems*

Industry Standards including *QUEST Operating Rules*, if applicable

REVIEW PROCEDURES

A. Disputed Transaction/Settlement Resolution

1. Review procedures for handling disputed transactions and settlements.
 - a. Determine procedures for identifying and resolving disputes.
 - b. Determine if records are maintained of disputed transactions or settlement (including information to identify complainant, nature of dispute, nature of

resolution and action taken, date of complaint, date of resolution and action taken).

- c. Review a sample of disputed transactions to assess that established resolution procedures are followed.

B. Government Reimbursement Payment Requests

1. Document the procedures for requesting Federal and State reimbursements.
2. Test controls by determining that procedural/system controls are in place and adequate to ensure that daily reimbursement requests and associated payments from the Federal and State agencies result in a net zero balance for each program.

C. Daily Account Balance and Net Settlement Position Reconciliation

1. Determine that the service organization maintains current written procedures for the daily reconciliation of account balance differences, net settlement positions, and government fund requests.
2. Determine that the service organization maintains accurate records of the daily account balance, net settlement, and government reimbursement requests/ payments for each program administered through the EBT system.
3. Determine that there is a separation of duties for personnel involved with the service organization functions for government reimbursement payment requests, transaction processing, and reconciliation.

Federal Cash Programs

4. Ensure that the monthly government benefit authorization update has been properly reconciled to system liability.
5. Verify that the cumulative daily withdrawals from the issuer financial institution account has been properly reconciled to the summary total of the daily ACH settlement endpoint report.
6. For a sample of settlement endpoints, determine that the cumulative amount of approved transaction log entries reconcile with the ACH settlement endpoint reports.
7. Review issuer financial institution statements to ensure timely payment of settlement endpoints.

State Cash Programs

State Payment

8. Determine that issuer withdrawal requests have been reconciled with the ACH settlement endpoint reports and were timely transmitted to the State.
9. For a sample of settlement endpoints, determine that the cumulative amount of approved transaction log entries reconcile with the ACH settlement endpoint reports.

Service Organization Payment

10. Determine whether the issuer fund withdrawal requests have been properly reconciled with the ACH settlement endpoint report.
11. Verify that deposits into the issuer financial institution account have been reconciled with withdrawal requests.
12. For a sample of settlement endpoints, ensure the cumulative amount of approved transaction log entries reconcile with the ACH settlement endpoint reports.
13. Review issuer financial institution account statements and a sample of transactions to ensure timely payment to settlement endpoints.

Food Stamp Program

Payment processes for FSP transactions vary among States. In all States, completely processed FSP purchases are the basis for Federal funding requests. The party that requests the Federal funds and pays retailers varies. The EBT service organization, States, or designated financial institutions may perform the funding request and retailer payment functions. The State EBT contract specifies the arrangements for each system. All requests for Federal funds are made through the ASAP system. ASAP is a centralized system for the request and delivery of Federal funds developed by the U.S. Department of the Treasury and the Federal Reserve Bank of Richmond.

14. Determine whether EBT system funding requests have been reconciled with the ACH settlement endpoint report.
15. Verify that deposits into the service organization financial institution account have been reconciled with funding requests in systems where the service organization manages retailer payment.
16. For a sample of retailers, ensure the cumulative amount of approved transaction log entries reconcile with the ACH settlement endpoint reports.

17. Review issuer financial institution statements and a sample of transactions to ensure timely payment of retailers where the service organization manages retailer payment.

VII. CARD CONTROLS

DESCRIPTION

Procedures must be established to minimize the risk of unauthorized benefit cards or unauthorized individuals accessing EBT system benefits. The vast majority of EBT systems use magnetic card technology/PIN offset. However, a limited number of States use smart cards (cards containing a microcomputer chip with all processing capabilities built-in) and some States are considering optical card technology. Magnetic cards comply with applicable American National Standards Institute (ANSI) or International Standardization Organization (ISO) established card standards which include magnetic strips. The magnetic strips contain encoded information such as card number and the PIN issued to the participant authorized to use the card. Each participant is issued a PIN which must be used with the card to obtain access to EBT system benefits. Card controls also include procedures to suspend or cancel cards due to loss or damage.

REVIEW OBJECTIVE

Assess operation of controls established to minimize unauthorized users of EBT benefit cards and the use of unauthorized magnetic cards. Review operations under direct control of the service organization. Assess service organization's compliance with ANSI/ISO standards, as applicable.

GUIDANCE

ANSI/ISO 7813-1990 Identification Cards - Financial Transaction Cards, if applicable

Title 7 CFR 274.12(h) *USDA, Food Stamp Program*, Mandates use of ANSI/ISO standards, as applicable

Title 7 CFR 274.12(h)(6) *USDA, Food Stamp Program*, Specifies use of ANSI/ISO standards for benefit cards and POS devices

A. REVIEW PROCEDURES

1. Determine benefit card issuance services provided by the EBT service organization. Identify the role of the service organization in the issuance of the card and assignment of the PIN.
2. Determine and test a sample of transactions and procedures established to:
 - a. assign PIN;
 - b. deliver benefit cards to participants;
 - c. activate the card;
 - d. report and deactivate damaged, lost, or stolen cards;

- e. handle, record, and destroy active cards returned to the service organization; and
 - f. control access to and inventory levels of pre-printed unused card stock.
3. Review PIN assignment process.⁴ The following items should be tested, as appropriate, to ensure:
- a. Automated PIN selection units include security features in accordance with current industry standards such as data encryption.
 - b. Manual PIN selection forms include security features which veil the PIN from all knowledgeable workers.
 - c. Mailed PIN issuance procedures include a PIN activation process or receipt confirmation process.
 - d. Proper segregation of duties exists which precludes card authorization staff from having responsibility for the PIN selection process.
 - e. Participants' identification is verified prior to a participant PIN selection process.
 - f. Proper procedures are utilized for reissuance of a lost/forgotten PIN and for changing a PIN.
4. Document an assessment of the adequacy of benefit card and PIN controls.

⁴ Note: PIN assignment may be included in card activation procedure.

VIII. AGREEMENT CONTROLS

DESCRIPTION

Contractually established responsibilities for operating EBT system including reporting specified elements to the government in order to gauge system performance. Examples include transaction processing speeds, statistics on help desk operations, and system balancing reports.

OBJECTIVE

Ensure that the service organization complies with term of agreements and contracts which establish rights, responsibilities, roles, and duties between various EBT system parties.

GUIDANCE

Title 7 CFR 274.12, USDA, Food Stamp Program, *Electronic Benefit Transfer Issuance System Approval Standards*

Agreement control requirements vary depending on the service organization contract.

A. REVIEW PROCEDURES

1. Determine procedures and processes established to monitor and ensure compliance with contract requirements.
2. Review reports of key processes (such as system availability, transaction processing, aging, and participant and retailer complaint logs) to assess contractor compliance with established policies and procedures.

IX. REPORTING

DESCRIPTION

This section documents the type of SAS 70 review requested and defines the content of the report required for use by governmental audit organizations.

REVIEW OBJECTIVE

Ensure that service auditors provide adequate and timely reports to user organizations relating to the service organization's internal control structure policy and procedures, contract compliance, and performance.

GUIDANCE

Government Auditing Standards 1994 Version (GAO/OCG-94-4), Chapter 5 *Reporting Standards for Financial Audits*

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 500 "Reporting"

SAS No. 70, *Reports on the Processing of Transactions by Service Organizations*, Paragraphs .51 through .56.

Implementing SAS No. 70, *Reports on the Processing of Transactions by Service Organizations*

A. REVIEW PROCEDURES

1. The service organization auditor shall prepare a report on controls placed in operation and tests of operating effectiveness (SAS No. 70, Type II) for the service organization. The report shall comply with requirements specified in SAS No. 70 and should contain:
 - a. A specific reference to the applications, services, products, or other aspects of the service organization covered;
 - b. A description of the scope and nature of the service auditor's procedures;
 - c. A reference to a description of tests of specified service organization controls designed to obtain evidence about the operating effectiveness of controls used to achieve specified objectives. The description should include the controls that were tested, the objectives the controls were intended to achieve, the tests applied, and the results of the tests. The description should include an indication of the nature, timing, and extent of the tests, as well as sufficient detail to enable user auditors to determine

the effect of such tests on user auditors' assessments of control risk. To the extent that the service auditor identified causative factors for exceptions, determined the current status of corrective actions, or obtained other relevant qualitative information about exceptions noted, such information should be provided;

- d. If subservice organizations are used by the service organization, ensure that this is properly considered in the development of the report; and
 - e. A description of audited entities (i.e., States) included in the scope of the review.
2. The report should comply with current AICPA guidance on whether the service organization's system is Year 2000 compliant.
 3. In accordance with Government Auditing Standards, the service auditor's report, as well as the supporting workpapers if requested, shall be made available to both State and Federal program and audit agencies. Reports should be provided to all Federal and State agencies that have contracts with the service organization for EBT services. The reports should cover the service organization's 12-month period ending on June 30 and be provided to the State agencies within 60 days of the end of the reporting period (August 31).
 4. The report should contain appropriate references to user control considerations and outline the responsibilities of the various States and related parties (i.e., ATM networks, retailers, etc.)

PAYMENT PROCESSES

1. General

There are five principal types of payment processes in EBT administration:

- Commercial settlement performed by the EBT service organization⁵;
- Federal reimbursement payments to the EBT service organization for the State-administered EBT programs (i.e., FSP, WIC);
- State reimbursement payments to the EBT service organization for State-administered cash assistance;
- Direct Federal payments to the EBT service organization by the Department of the Treasury; and,
- Payment by State agencies to EBT service organizations for ongoing EBT services per State/service organization contractual requirements.

State law and procurement rules and the terms and conditions of individual State contracts with EBT service organizations govern EBT service organization billing and invoicing procedures and State payments. Controls for state vendors for billing/ invoicing are independent from the EBT function and are, therefore, beyond the scope of these review guidelines.

The Department of Treasury FMS on behalf of Federal program agencies makes direct Federal EBT payments. Payments are made by the FMS as funds transfers through ACH to designated participants' accounts. The payment is considered a Federal disbursement at the point of ACH payment origination. The payment and EBT account funds for direct federal benefits are subject to Federal Reserve Regulation E.⁶ Specifically, the consumer protection under Regulation E for unauthorized transactions from an electronic funds transfer (EFT) account apply to direct Federal benefits payments and accounts. As with regular direct deposit accounts, the direct Federal EBT accounts are established on a voluntary basis by the participant. The participant is subject to any account rules or fees imposed by the financial institution for such accounts. Therefore, there are no differences between direct Federal EBT payments and Federal direct deposit EFT payments by ACH to participants' deposit accounts held by financial institutions. As with direct federal EBT payments, such payments are considered federal disbursements at the point of ACH origination and the accountability/responsibility for the participants' funds is solely between the participant and the financial institution. The Department of Treasury has not established audit

⁵ The term "EBT Service Organization" or "EBT Issuer" is used to denote the entity contracted by the State agency to provide the full range of EBT services for the State. Commercial settlement involves commercial electronic funds transfer through ACH. An ACH payment may only be originated by a depository financial institution. Therefore, the contracted EBT service organization must be a financial institution or must subcontract with a financial institution for purposes of EBT settlement.

⁶ The Federal Reserve Board's Regulation E creates a legal framework of rights and responsibilities for consumers and for providers of electronic fund transfer services.

APPENDIX A

requirements or guidelines for direct deposit payments to participants through ACH payments or for payments made by financial institutions from those accounts, since the accounts are owned by the participant. On September 16, 1997 the Department of Treasury issued a notice of proposed rulemaking to implement the EFT provisions of the Debt Collection improvement Act of 1996; those provisions require mandatory EFT payments for all federal payments, unless specifically waived, by January 1, 1999. The proposed rule presented the concept of an Electronic Transfer Account (ETA), which would be established at designated financial institutions on behalf of those payment participants without an account at a financial institution to which a direct deposit payment could be made. Since direct federal EBT payments are no different from direct deposit payments the status of the Treasury regulation and ETA accounts is not certain at this point, payments to direct federal EBT and ETA accounts are not included in the scope of this guideline.

Therefore, this guideline covers these three types of EBT payments processes:

- Commercial settlement performed by the EBT service organization;
- Federal reimbursement payments for state-administered programs (i.e., FSP, WIC);
- State reimbursement payments to the EBT service organization for State-administered cash assistance.

2. Commercial EBT Settlement and Government Reimbursement Payment Process and Funds Flow

The following charts show the payment processes and funds flow for commercial EBT settlement and government reimbursement payments.

Food Stamp Program Settlement

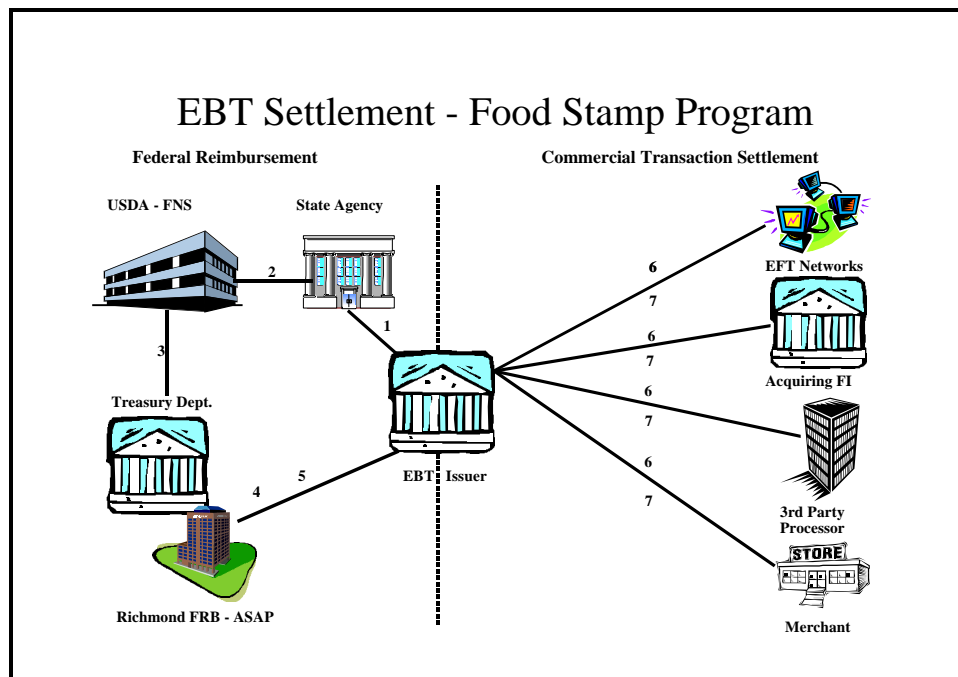


Chart 1

Charts 1 and 2 show FSP settlement and payment processes for "generic" EBT systems and for EBT systems following the QUEST EBT Operating rules. The charts are divided into the two payments types: Federal reimbursement payments on the left and commercial transaction settlement on the right. These are separate and distinct processes. FSP settlement and payment processes are comprised of the following steps corresponding to the numbers on the charts:

- 1). **State Contract with EBT Issuer.** The State agency must contract with the EBT Issuer for settlement services. The terms and conditions of the state contract require compliance with FSP rules, present functional responsibilities, performance requirements, and generally assign liability for proper settlement to the EBT Issuer.

The principal sources for performance requirements for EBT service organization commercial settlement are the FSP regulations (274.12(e) *Functional Requirements. (3) Crediting Retailers and Financial Institutions for Redeemed Benefits*), the QUEST EBT Operating Rules Chapter 6 Settlement, and any State/EBT Service organization contract provisions. These rules and contract performance requirements establish EBT service organization responsibilities for daily cut-off and processing, settlement timing, and settlement reconciliation processes and reporting.

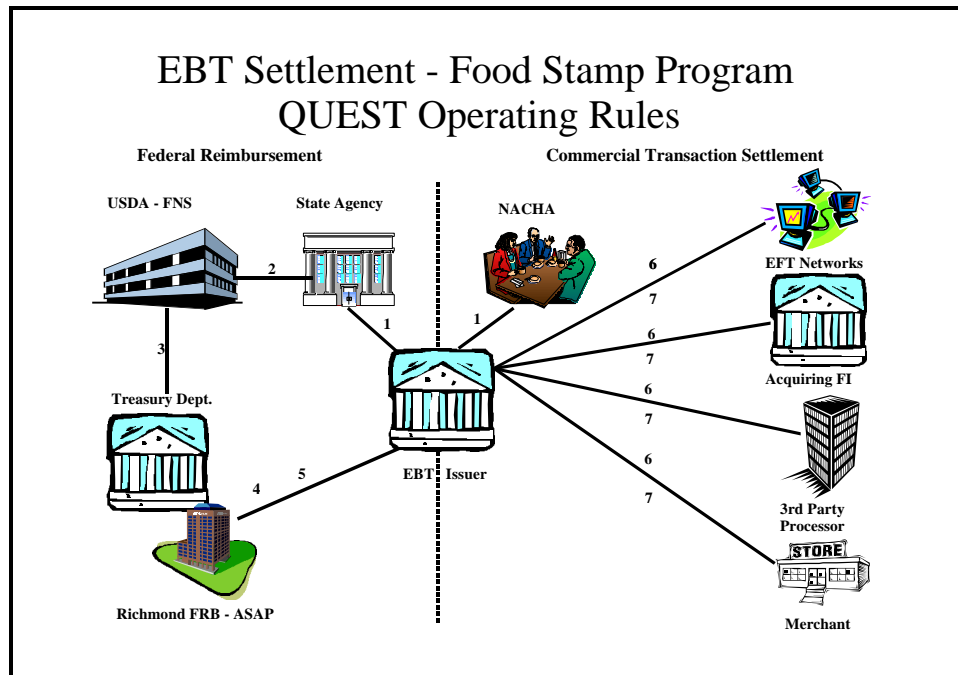


Chart 2

NACHA Issuer Agreement. As shown in Chart 2, in addition to State contracts under the QUEST EBT Operating Rules the National Automated Clearinghouse Association (NACHA) must enter into an Issuer Agreement with the EBT Issuer. The Issuer Agreements parallel EFT network agreements in the commercial debit world. Through the Issuer agreements, EBT Issuers commit to comply with QUEST Operating Rules. The NACHA Issuer Agreement provides the authority for the EBT Issuer to enter into similar "commercial" agreements with the other commercial entities participating in EBT--EFT networks, acquiring financial institutions, third-party service organizations, and retailers. The NACHA Issuer Agreements and Operating Rules also convey a critical requirement; under the QUEST rules, the EBT Issuer agrees to warrant, or guarantee payment, for all transactions that are properly authorized by the Issuer. This requirement represents the same requirement in the commercial debit world. Therefore, EBT Issuer responsibilities and liabilities under the QUEST Operating Rules and under commercial EFT/debit rules are parallel (except for EBT account coverage under Federal Reserve Regulation E).

2). **USDA Automated Standard Application for Payments (ASAP) Funds Request Authorization to the State.** USDA must authorize the State agency, or the EBT Issuer acting as the State's agent, to request and receive Federal reimbursement payments from USDA through the Treasury FMS ASAP system. With this authorization, USDA establishes an individual "credit account" for each operating State EBT system. The Richmond Federal

APPENDIX A

Reserve Bank in conjunction with the Department of Treasury Financial Management Service operates the ASAP system.

3). **USDA Authorization for State EBT Accounts through ASAP System.** Through the ASAP system operator, the Richmond Federal Reserve Bank, USDA authorizes individual state EBT credit accounts.

4). **EBT Issuer Daily EBT Federal Reimbursement Request to ASAP.** On a daily basis, the EBT Issuer submits a Federal reimbursement request to the Richmond Federal Reserve Bank through the ASAP system. The Federal Reimbursement request shall be a strict zero-balance reimbursement for the net settlement position presented by the EBT Issuer for commercial settlement.

5). **ASAP Funds Transfer.** The Richmond Federal Reserve Bank as ASAP operator originates an ACH payment to the EBT Issuer representing the Federal reimbursement payment. Under special circumstances the payment may be made by FedWire rather than ACH. Thus completing the Federal reimbursement payment process. USDA and the EBT Issuer are responsible for reconciling the daily net settlement position to the Federal reimbursement payment.

FSP regulations (7 CFR 274.12(j)) require the EBT service organization to perform a daily reconciliation of authorized transactions to retailers credits to recipient account balance changes. In addition, the EBT service organization is required to perform a daily reconciliation of total funds received, paid out, and account balance differences.

6). **Determine Net Settlement Position.** On a daily basis, the EBT Issuer must determine the net settlement position for each commercial entity participating in the EBT system (i.e., EFT networks, acquiring financial institutions, third-party service organizations, and retailers). The net settlement position must equal the value of transactions authorized during the settlement day (defined by a 24-hour cutoff) \pm any adjustments. The EBT Issuer is required to settle EBT transactions each business day. The EBT Issuer is required to reconcile EBT transactions authorized, any adjustments during the processing day, and the net settlement position on a daily basis. This process is no different than commercial settlement of commercial debit transactions.

7). **Originate EBT Settlement.** The EBT Issuer is required to originate EBT settlement through ACH payment to the financial institutions or third-party service organizations responsible for retailer accounts on each business day. This process is no different than commercial settlement of commercial debit transactions.

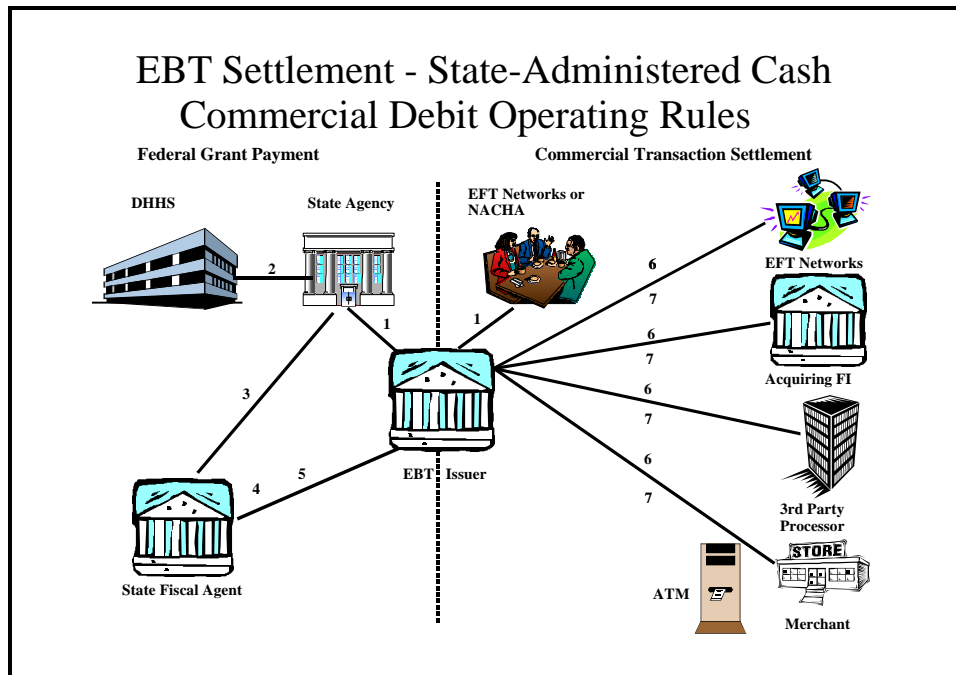


Chart 3

State-Administered Cash Program Settlement

- 1). **State Contract with EBT Issuer and NACHA Agreement.** Same as for the FSP above.
- 2). and 3). **Program Grant or Funds Authorization to the State.** For Federal cash assistance programs, the State receives a grant award and can draw against that grant award under procedures stipulated through agreement with the Federal government. For State or local cash assistance programs, the State agency receives funds authorization through state-specific procedures and rules. In either case, the State determines when and how to make program cash funds available to a State fiscal agent. The account can operate as a pre-funded account or as a zero-balance account as determined by the state. Regardless, the state-administered cash assistance accounts are credit accounts; funds are issued by the State/State fiscal agent only as reimbursement for the net cash position originated by the EBT Issuer.
- 4). **EBT Issuer Daily EBT State Reimbursement Request.** On a daily basis, the EBT Issuer submits a state reimbursement request to the State or the State's fiscal agent, under procedures determined by the State. As noted above, the states generally require through the EBT Service organization contracts that the reimbursement request be strict zero-balance reimbursements for the net settlement position presented by the EBT Issuer for commercial settlement for the state-administered cash transactions.

5). **State Reimbursement Payment to EBT Service organization.** State reimbursement payments are made in accordance with procedures established through the state/EBT Service organization contracts.

6). **Determine Net Settlement Positions.** On a daily basis, the EBT Issuer must determine the net settlement position for each commercial entity participating in the EBT system (i.e., EFT networks, acquiring financial institutions, third-party service organizations, and retailers). The net settlement position must equal the value of transactions authorized during the settlement day (defined by a 24-hour cutoff) \pm any adjustments. The EBT Issuer is required to settle EBT transactions each business day. The EBT Issuer is required to reconcile EBT transactions authorized, any adjustments during the processing day, and the net settlement position on a daily basis. This process is no different than commercial settlement of commercial debit transactions.

7). **Originate EBT Settlement.** The EBT Issuer is required to originate EBT settlement through ACH payment to the financial institutions or third-party service organizations responsible for retailer accounts on each business day. This process is no different than commercial settlement of commercial debit transactions.

3. EBT Service organization Controls Assurance

The EBT service organization should provide assurance of the adequacy of controls for the following EBT service organization payments processes:

- Commercial settlement to, as appropriate, EFT networks, financial institution acquirers, third-party service organizations, retailers in accordance with federal rules, QUEST rules, state contracts, and industry rules/requirements (NACHA ACH rules);
- Disputed transaction/settlement resolution;
- Government reimbursement payment requests; and
- Daily EBT account balance and net settlement position reconciliation.

The EBT service organization/independent auditor should be able to provide reasonable assurance of the adequacy of the control structure for commercial settlement through ongoing controls, reviews and audits of commercial EFT settlement. Next business day settlement following the transaction day is a general requirement within the financial services industry. The daily cutoff time may vary for commercial transaction processing and EBT processing; however, this will not affect compliance with the next business day settlement requirement. Since EBT settlement with commercial end-points processes is no different than commercial settlement for commercial debit, no audit requirements specific to EBT commercial settlement should be required. However, the EBT service organization must enter into agreements with all private sector participants in EBT, either directly or through a designated agent. The agreements define the roles, responsibilities, and liabilities of all private sector participants in the EBT system. The agreements also specify the operating rules, either directly or by reference, for the EBT system operations (including

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settlement). These agreements, along with the associated operating rules embodied in them, serve as a fundamental level of control for all EBT operations within the private sector. This is consistent with commercial EFT.

The three other EBT service organization functions identified for reasonable assurance of the adequacy of controls have EBT specific requirements requiring a determination specific for the EBT function.

REPORTS OF SERVICE ORGANIZATIONS

Five types of reports may be prepared by the service organizations as specified in the contract with the Federal or State entity. Those reports may include the following subreports:

- Financial Audit Reports:

Account Activity Report
Batch Processing Report
Aging and Expungement Report
System Reconciliation and Settlement Report

- Program Management Reports:

Conversion Report
FNS Pilot Report
Program Participation Data

- Security and Fraud Reports:

Participant Fraud and Compliance Report
Internal Agency Security Report

- System Performance Reports:

Response Time Analysis Report
Utilization Report
System Availability
Transaction Activity Reports

- FNS reporting requirements:

Benefit Redemption Systems Branch Retailer Redemption Data
FNS Compliance Investigations and Reporting
Changes in Retailer Database Report