

USDA



U.S. Department of Agriculture
Office of Inspector General
Southwest Region
Audit Report

FOOD AND NUTRITION SERVICE
FOOD STAMP PROGRAM
ELECTRONIC BENEFITS TRANSFER
SYSTEM DEVELOPMENT - TEXAS



**Report No.
27099-13-Te
JUNE 2003**



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Southwest Region

101 South Main, Suite 324

Temple, Texas 76501

TEL: 254-743-6565 / FAX: 254-298-1373



DATE: June 23, 2003

REPLY TO

ATTN OF: 27099-13-Te

SUBJECT: Texas EBT System Development

TO: William E. Ludwig
Acting Regional Administrator
Food and Nutrition Service
Southwest Region

ATTN: Judy Barron
Regional Director
Food Stamp Program

This report presents the results of our audit of the Texas EBT System Development. Your May 8, 2003, response to the draft report is included as exhibit A with excerpts and the Office of Inspector General's position incorporated in the relevant sections of the report.

Based upon the information contained in the response, we have reached management decisions on all the recommendations in the report.

Please note that Department Regulation 1720-1 requires that final action be taken within 1 year of each management decision. Correspondence concerning final actions should be addressed to the Office of the Chief Financial Officer.

/s/ R. P. Childs
RALPH P. CHILDS
Acting Regional Inspector General
for Audit

EXECUTIVE SUMMARY

FOOD AND NUTRITION SERVICE FOOD STAMP PROGRAM ELECTRONIC BENEFITS TRANSFER SYSTEM DEVELOPMENT - TEXAS

REPORT NO. 27099-13-Te

RESULTS IN BRIEF

The Texas Department of Human Services (TDHS) established a new electronic benefits transfer (EBT) system after Transactive Corporation, its prime EBT contractor, announced on February 27, 1998, that it was exiting the EBT business upon the expiration of its contract. TDHS acquired certain assets from Transactive Corporation and outsourced EBT services to establish the new system. TDHS completed the transition to the new system in February 2001. Due to this transition, we elected to review the Texas EBT system as part of our ongoing efforts to monitor the establishment of EBT systems nationwide. Our objectives were to assess established controls over the new EBT system and determine whether the controls were functioning as designed.

Overall, the TDHS had sufficient controls and procedures to ensure that food stamp program (FSP) benefits were issued in a timely manner, recipients were trained in the use of EBT cards, transactions were processed in a timely manner, and retailers received their payments. Although the audit did not identify any questionable transactions, we found that TDHS needed to improve its EBT system access controls.

TDHS did not document requests for access to the EBT system, nor did it conduct periodic reviews to determine if access granted to users remained appropriate. This condition occurred because TDHS did not have an internal control to ensure that security staff were following State agency procedures requiring documentation authorizing access to the EBT system be maintained and periodically reviewed. As a result, TDHS had no assurance that the level of EBT system access granted to employees was appropriate for their assigned responsibilities.

KEY RECOMMENDATIONS

We recommend that the Food and Nutrition Service (FNS) direct TDHS to establish control procedures requiring that: (1) EBT system access authorizations are documented in writing, retained on file, and periodically reviewed, and (2) a Statewide review of all current EBT user access codes and profiles is conducted to remove or modify inappropriate access.

AGENCY RESPONSE

In its response dated May 8, 2003, FNS agreed with all of the findings and recommendations contained in the report. We have incorporated applicable portions of FNS' response along with our position in the Findings and Recommendations section of the report. The agency's response is included as exhibit A of the report.

OIG POSITION

We agree with FNS' proposed corrective actions and have reached management decisions on the recommendations.

TABLE OF CONTENTS

EXECUTIVE SUMMARY	i
RESULTS IN BRIEF.....	i
KEY RECOMMENDATIONS	ii
AGENCY RESPONSE	ii
OIG POSITION.....	ii
TABLE OF CONTENTS.....	iii
INTRODUCTION.....	1
BACKGROUND	1
OBJECTIVES.....	2
SCOPE	2
METHODOLOGY	3
FINDINGS AND RECOMMENDATIONS	4
CHAPTER 1	4
TDHS NEEDS TO IMPROVE CONTROLS OVER ACCESS TO EBT SYSTEM	4
FINDING NO. 1	4
RECOMMENDATION NO. 1	5
RECOMMENDATION NO. 2	6
EXHIBIT A – FNS’ RESPONSE TO DRAFT REPORT	7

INTRODUCTION

BACKGROUND

The United States Department of Agriculture's FNS administers the FSP through a joint Federal-State partnership. The Federal Government pays the full cost of recipient benefits and shares the cost to administer the FSP with the States. Congress funds the FSP through the direct appropriation of funds. Through this joint Federal-State partnership, FNS is pursuing EBT implementation by each State for the FSP nationwide.

The FSP assists low-income households by increasing their ability to purchase food. Once a month, each participating household receives a benefit allotment determined by the number of individuals in the family, household income, and other related factors. The FSP recipients use the benefits to pay for food items at approved participating food retailers.

Before EBT, the basic method of FSP benefit delivery was the food stamp coupon. EBT was developed to replace paper coupons with a computerized version of the food benefit delivery process. Using plastic cards, much like debit cards, along with a personal identification number (PIN), recipients gain access to their benefits through point-of-sale (POS) terminals located at approved food retailers. The retailers are reimbursed for food purchased by the recipient.

In fiscal year (FY) 2001, FSP benefits were approximately \$15.5 billion and increased to approximately \$18.2 billion for FY 2002. FSP benefits issued through EBT totaled approximately \$12.3 billion in FY 2001 and are expected to increase annually.

The Food Stamp Act of 1977, Public Law 88-525, authorized FNS to experiment with alternative methods for the delivery of FSP benefits using electronic data processing and computer technology. With this authorization, FNS allowed State agencies to begin issuing FSP benefits using an EBT system. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Public Law 104-193, required all States to implement EBT systems before October 1, 2002.

In May 2000, the State of Texas awarded contracts to Northrop Grumman, Affiliated Computer Services (ACS), and GTECH to establish an online EBT system in which the benefit authorizations are maintained in a central computer and recipient benefits are processed through POS terminals

located at authorized retailers. The online system uses plastic benefit cards that are distributed to FSP households. The cards have a magnetic strip containing basic identifying information for the recipient to make food purchases. At the retailer, FSP recipients present their card and enter a unique PIN into the POS terminal. The POS terminal communicates with a central database that verifies the amount of benefits available, authorizes the transaction, and debits the household account for the amount of the purchase. The EBT system also calculates each retailer's cumulative daily FSP sales and authorizes payment by electronic funds transfer.

TDHS administers the EBT system for the State of Texas and administers EBT contracts with Northrup Grumman, ACS, and GTECH for central processing, retailer management, and call-center services, respectively. The contracts were awarded in May 2000 and expire in 5 years with options to renew for 5 additional years.

The FNS National Office is responsible for establishing overall program regulations, EBT policy, approval of State EBT systems, and coordinating with Federal, State, commercial, and private interest groups. A national office FSP account executive is assigned to work with each State. FNS' policy allows States the flexibility to establish controls that meet the needs of the State; however, the State remains financially liable to the Federal Government for actions of its EBT processor. FNS has established approval rules for the delivery of FSP benefits using EBT systems in Title 7, Code of Federal Regulations (CFR), section 274.12, and for approving automated data processing systems in Title 7, CFR, section 277.18. FNS Regional Offices (FNSRO) serve as liaisons between the States and the FNS National Office.

OBJECTIVES

The objectives of this audit were to provide an evaluation of the adequacy of established controls and an assessment on whether controls functioned as designed.

SCOPE

As of October 2002, 46 States, the District of Columbia, and Puerto Rico used EBT systems to deliver FSP benefits. Of these systems, 45 have been implemented Statewide. Texas was judgmentally selected for review as a result of our efforts to continue to monitor EBT systems that have been implemented Statewide. Texas delivered approximately \$1.5 billion in FSP benefits for FY 2002. Our fieldwork was performed during the period March through October 2002.

We reviewed EBT transactions for FY 2002. During the audit, we visited the FNSRO in Dallas, Texas; TDHS' EBT operations in Austin, Texas; and contractor ACS in Austin, Texas. We reviewed controls and procedures established by FNS, TDHS, and appropriate contractors, including drawdowns and settlements, authorizations and logon accesses to the EBT system, reconciliations, conversions of EBT benefits to food stamp coupons, reporting of expungements, recoupment of benefits, and routine management oversight.

The audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Accordingly, the audit included such tests of program and accounting records as considered necessary to meet the audit objectives.

METHODOLOGY

To accomplish the audit objectives, we relied on documentary, analytical, and testimonial evidence. We compared the State's EBT operation with requirements of the Food Stamp Act of 1977, as amended, and Title 7, CFR, sections 271 through 277, revised January 1, 2001. We interviewed FNSRO and TDHS officials and reviewed program policies and procedures. We assessed key control areas including the FNSRO's and TDHS' utilization of EBT management reports and examined the physical security of returned EBT cards.

FINDINGS AND RECOMMENDATIONS

CHAPTER 1	TDHS NEEDS TO IMPROVE CONTROLS OVER ACCESS TO EBT SYSTEM
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FINDING NO. 1

TDHS did not document requests for access to the EBT system, nor did it conduct periodic reviews to determine if access granted to users remained appropriate. This condition

occurred because TDHS did not have an internal control to ensure that Security Officers were following agency procedures requiring documentation authorizing access to the EBT system be maintained and periodically reviewed. As a result, TDHS had no assurance that the level of EBT system access granted to employees was appropriate for their assigned responsibilities.

Access controls should provide reasonable assurance that computer resources (data files, application programs, and computer-related facilities and equipment) are protected against unauthorized modifications, disclosure, loss, or impairment.

TDHS established policies and procedures for authorizing and documenting access to information resources as set forth in section 3000 of the TDHS Automation and Telecommunications Handbook, revised July 1, 2001, and section 5100 of the Security and Accountability Handbook, dated February 23, 2001. Further, Title 7, CFR, section 277.18(p)(1), sets forth requirements for State and local agencies to be responsible for the security of all ADP projects under development and operational systems involved in the administration of the FSP.

In compliance with TDHS' policies and procedures, Security Officers should only issue EBT system access codes to employees who have received supervisor authorization. Employees obtain authorization from supervisors who submit TDHS Form 4743, Request for Application and System Access, to the Security Officer. TDHS' policy and procedures also require that Security Officers periodically review access authorizations to ensure that the level of access granted to employees continues to be appropriate for their duties and retain authorizations for 3 years after employees vacate EBT positions. However, we found that TDHS' Security

Officers were not following procedures which required requests for access to the EBT system be documented and periodically reviewed. When asked why they were not following agency procedures, a Security Officer stated that since TDHS used sensitive data such as social security numbers for user logons, no requests for access were documented or periodically reviewed. However, we contend such sensitive data is not needed when requesting authorization to access the EBT system.

Further, our analysis and review of EBT system access codes for current and terminated employees identified 135 employees that had multiple EBT system access codes or were assigned to multiple groups. We submitted the results of our analysis to TDHS personnel to determine why these employees were granted multiple access codes and/or assigned to multiple groups. A TDHS representative said that we identified employees that were assigned to multiple groups before the Administrative Terminal software was modified to prevent users from being assigned to multiple groups. The TDHS representative stated that employee access is dynamic, and the software will ensure that users assigned to new groups will be removed from previously assigned groups. However, users assigned to multiple groups before the software was implemented still need to be corrected.

To improve control over EBT system access, TDHS should establish an internal control to ensure that Security Officers are complying with agency procedures requiring that authorization for access to the EBT system be documented and periodically reviewed.

RECOMMENDATION NO. 1

Direct TDHS to establish an internal control over authorization to access the EBT system to ensure that: (1) access is granted only when requests are documented in writing and approved by appropriate first-line supervisor and by the authorized security representative, (2) Security staff retain all approved authorizations on file to aid periodic reviews, and (3) periodic Statewide reviews of EBT system access codes are conducted to identify inappropriate access.

FNS Response

In its response dated May 8, 2003, FNS concurred with our recommendation. FNS also clarified the language we mutually agreed on for Recommendation No. 1, item (1), as follows: "access is granted only when requests are documented in writing and approved by appropriate first-line supervisor and by authorized 'security' representative."

By June 13, 2003, FNS will issue a letter directing the State agency to incorporate the recommendations and provide a copy of the letter to OIG.

OIG Position

We agree with the management decision for Recommendation No.1. Also, we added the word “security” that was inadvertently left out of Recommendation No. 1 in the official draft report.

RECOMMENDATION NO. 2

Direct TDHS to review its current list of all EBT user access codes and profiles (Statewide) and remove or modify access that is no longer appropriate.

FNS Response

FNS concurred with our recommendation that TDHS review its current list of EBT user access codes and profiles (Statewide) and remove or modify inappropriate access. By June 13, 2003, FNS will issue a letter so directing the State agency and provide a copy to OIG.

OIG Position

We agree with the management decision for Recommendation No. 2.

EXHIBIT A – FNS’ RESPONSE TO DRAFT REPORT



United States Department of Agriculture
Food and Nutrition Service
Southwest Region

MAY 08 2003

Reply to
Attn of: SWFS-303

Subject: FSP – 27099-13-Te – Texas EBT System Development

To: Ralph Childs
Acting Regional Inspector General
For Audit

In response to your official draft report of subject audit dated April 16, 2003, we provide the following comments:

Recommendation No. 1

“Direct TDHS to establish an internal control over authorization to access the EBT system to ensure that: (1) access is granted only when requests are documented in writing and approved by appropriate first-line supervisor and by the authorized representative; (2) security staff retain all approved authorizations on file to aid periodic reviews; and (3) periodic Statewide reviews of EBT system access codes are conducted to identify inappropriate access.”

We concur with your recommendation. We would like to point out that the language we had mutually agreed on for Recommendation No. 1, item (1) was, “access is granted only when requests are documented in writing and approved by appropriate first-line supervisor and by authorized ‘security’ representative”. By June 13, 2003, this office will issue a letter, with a copy to you, so directing the State agency.

Recommendation No. 2

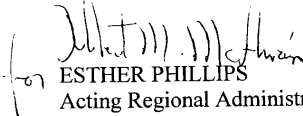
“Direct TDHS to review its current list of all EBT user access codes and profiles (Statewide) and remove or modify access that is no longer appropriate.”

We concur with your recommendation. By June 13, 2003, this office will issue a letter, with a copy to you, so directing the State agency.

Mr. Ralph Childs

2

If you have any questions, please contact Phil Swain or Kathy Yarbrough, of the Food Stamp Program, at (214) 290-9804.


ESTHER PHILLIPS
Acting Regional Administrator

