



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

ELECTRONIC BENEFITS
TRANSFER SYSTEM
STATE OF NEW YORK



**Audit Report No.
27099-16-Hy
December 2001**



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Northeast Region

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Date: December 7, 2001

REPLY TO

ATTN OF: 27099-16-Hy

SUBJECT: Electronic Benefits Transfer System
State of New York

TO: Frances E. Zorn
Regional Administrator
Northeast Region
Food and Nutrition Service

This report presents the results of the subject audit. The Food and Nutrition Service's November 21, 2001 response to the official draft report is included as Exhibit A. Excerpts from the response and the Office of Inspector General (OIG) position are incorporated into the Findings and Recommendations section of the report.

We concur with the agency's management decision for all recommendations (Nos. 1 through 12) included in the report. Follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the cooperation and assistance provided to the OIG staff during the audit.

/s/

MARLANE T. EVANS
Regional Inspector General
for Audit

EXECUTIVE SUMMARY

ELECTRONIC BENEFITS TRANSFER SYSTEM STATE OF NEW YORK AUDIT REPORT NO. 27099-16-HY

RESULTS IN BRIEF

Beginning in the mid-1980s States began delivering Food Stamp Program (FSP) benefits via electronic benefits transfer (EBT) systems. The Office of Temporary and Disability

Assistance (OTDA), the State agency in New York, participates in the Northeast Coalition of States (NCS) (a coalition of seven northeastern States). OTDA began converting its largest project area, the City of New York, to EBT issuance in March 1999 and completed the entire State in February 2001. We evaluated whether the Food and Nutrition Service (FNS) Northeast Regional Office's (NERO) oversight of OTDA's EBT system operations was adequate. We also identified and tested OTDA's established controls in key operational areas and assessed the adequacy of those controls. Our audit did not include an assessment of OTDA's FSP eligibility determinations or the proper use of FSP benefits by recipients and authorized retailers. Accordingly, we make no conclusions regarding FSP eligibility determinations or proper use of FSP benefits.

Overall, we found that FNS NERO's oversight of OTDA's EBT system and operations was adequate. NERO's oversight included providing technical assistance during the State rollout as well as on a continuing basis. NERO staff is also involved in the NCS, participating in discussions and providing input into decisions. Generally, OTDA had sufficient controls and procedures in place to ensure FSP benefits were initially made available to recipients in a timely manner, benefit cards were adequately controlled, transactions were accurately processed, and retailer payments were made in a timely and accurate manner. Additionally, OTDA performed adequate reconciliations of FSP issuance and payment data, and ensured help desk operations operated effectively. However, controls over system access, utilization of management reports, and recipient access to benefits need improvement. Specifically,

- OTDA has not established adequate controls over EBT system access and use of system access reports. OTDA relied upon Citicorp Electronic Financial Services (EFS) to develop an EBT system security plan. However, the plan did not adequately address procedures or controls for OTDA to remove system access for employees who have terminated

employment and those who no longer have a continuing need. Additionally, OTDA did not receive or utilize necessary system reports to effectively monitor EBT system access. As a result, there is increased risk of unauthorized access to EBT benefits, although no unauthorized access was identified.

- OTDA does not fully utilize EBT management reports provided by Citicorp EFS. OTDA officials felt certain management reports were not useful because of format problems or perceived the reports were not valuable for fraud reviews based on prior usage. As a result of not fully utilizing EBT management reports, OTDA's ability to effectively monitor the EBT system is compromised and potential suspicious EBT activity may not be detected.

Our review of selected management reports disclosed questionable activity. For example, we analyzed 3 months of reported lost, damaged, or stolen EBT cards; and out-of-State EBT transactions and identified the following.

- 13 recipients reported three or more lost, damaged, or stolen EBT cards; an indication that either they have not been properly trained regarding the safeguarding of the EBT card, possible improper disposal of the EBT card, or potential negligence.
- 37 recipients who received more than \$22,000 in FSP benefits, used approximately \$9,700 in benefits as far away as Arizona, Florida, Hawaii and New Hampshire, during at least 2 months of the 3 month period, an indication that the recipients may no longer be residents of the project area.
- OTDA officials do not convert FSP benefits to cash or coupons when recipients leave the project area. They require recipients moving from an EBT issuance area to a non-EBT issuance area, to use their available EBT benefits or lose them. This policy was implemented because of concerns by OTDA management that maintaining food coupons was burdensome and costly, and recipients who request that their benefits be converted to cash may not actually be leaving the project area. As a result, OTDA is in non-compliance with FSP regulations.
- Recipients are not notified nor do recipient training materials provide adequate information to the recipient about OTDA's expungement¹ policy. Without knowledge of the policy, a recipient may not be aware

¹ EBT benefits are required to be expunged when they have not been accessed by a recipient within the required timeframe and are subsequently no longer available for use.

that after 270 days of inactivity, FSP benefits would no longer be available.

KEY RECOMMENDATIONS

FNS needs to ensure that OTDA implements additional procedures and controls to improve system access, utilization of management reports, and recipient access to benefits.

Specifically, OTDA needs to:

- Develop and implement controls for reviewing system access, including removing access for terminated employees, inactive users, duplicate logon identifications (IDs), and those who no longer have a need to access the EBT system.
- Obtain system access reports that identify user IDs by location and user's last access date, and review for continuing need. Establish procedures for utilizing system access reports to monitor administrative terminal usage for improper activity.
- Better utilize management reports to more effectively monitor the EBT system, especially the reports used to detect potential improper activity. Require Citicorp EFS to correct report transmission problems in a timely manner or consider imposing fines as outlined in the EBT contract. Obtain from Citicorp EFS reports used to detect potential fraud in an electronic data file format.
- Implement controls to convert EBT benefits to either coupons or cash for recipients moving from a project area with EBT issuance to a project area without EBT issuance, including monitoring local agency implementation. Revise the EBT recipient training materials to include the State's expungement policy.

AGENCY RESPONSE

FNS and OTDA officials concurred with the audit findings and recommendations, and reported either having implemented or are in the process of implementing corrective actions.

OIG POSITION

OIG concurs with the proposed management decisions.

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INTRODUCTION

BACKGROUND

The Food Stamp Program (FSP) is designed to promote the general welfare and to safeguard the health and well being of the Nation's population by raising the level of nutrition among low-income households. The Food and Nutrition Service (FNS) enters into agreements with State agencies (SA) to develop and implement the FSP within each State. The FNS Northeast Regional Office (NERO) has oversight responsibility for the Northeastern United States, including the State of New York. FNS and the States share the program's administrative costs and FNS pays the full cost of recipient benefits.

In the past, the basic method of FSP benefit delivery was the food stamp coupon. The Food Stamp Act of 1977 as amended, Public Law 88-525, authorized FNS to experiment with alternative methods for the delivery of FSP benefits using electronic data processing. In the mid-1980's, a computerized version of food stamp delivery, the electronic benefits transfer (EBT) system, was developed to replace paper coupons. Using a plastic card similar to a debit card and a personal identification number (PIN), recipients gain access to FSP benefits through point-of-sale (POS) terminals located at approved food retailers.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (also referred to as the Welfare Reform Act), Public Law 104-193, required that by October 1, 2002, all States must implement an EBT system for FSP benefit delivery. Generally, States award contracts to private sector companies to develop and operate their EBT systems. These companies are usually financial institutions or other organizations that already handle electronic funds transfer activities. However, States remain financially liable to the Federal Government for the actions of its EBT processors. As of June 2001, 42 States and the District of Columbia have operational food stamp EBT systems.

FNS established rules for the delivery of FSP benefits using EBT systems in Title 7, Code of Federal Regulations (CFR) §274.12 and for approving automated data processing systems in Title 7, CFR §277.18. The FSP regulations specify functional areas to be addressed by the SA but do not establish a standardized system of internal controls. FNS' policy is to allow States the flexibility to establish control systems that meet each State's individual needs.

In New York State, the Office of Temporary and Disability Assistance (OTDA), shares the responsibility for providing economic assistance to State residents with 58 local agencies, including the City of New York's local welfare office, Human Resources Administration (HRA). OTDA (the SA) provides policy, technical support and guidance to local agencies. Personnel from the local agencies perform all of the duties of certifying a household's eligibility and overseeing the household's continued participation.

OTDA has responsibility for establishing EBT system security, reconciling benefit issuance and retailer payments, conducting fraud investigations, monitoring the accountability of EBT card inventory, and issuing State FSP policy. New York City is responsible for certifying recipients, authorizing issuance of EBT cards and PINs, providing training on accessing EBT benefits, and conducting fraud investigations. Citicorp EFS has responsibility for all EBT processing, instructing individuals who provide training to recipients and administrative staff, and operating the help desk. Affiliate Computer Services (ACS) (formerly Lockheed Martin IMS), a subcontractor for Citicorp EFS, is responsible for signing up retailers to accept FSP benefits via the EBT system and maintaining vouchers for certain manual transactions.

OTDA selected Citicorp EFS as its processor and began implementing EBT in March 1999. Prior to audit fieldwork, EBT was implemented in the 5 boroughs of New York City. As of February 2001, EBT was implemented Statewide. In fiscal year (FY) 2001, FSP benefits in New York were more than \$1.36 billion with almost \$1.25 billion or 92 percent issued via EBT.

OBJECTIVES

The primary objective of the audit was to provide an evaluation of the adequacy of OTDA's EBT internal controls and assess whether controls functioned as designed.

Specifically, we (1) identified internal controls established in key operational areas, (2) tested to ensure controls were in place and operated as designed, and (3) provided an assessment of the adequacy of prescribed controls. We also evaluated whether the FNS NERO's oversight of the OTDA's EBT system operations was adequate.

SCOPE

The audit was conducted at FNS NERO in Boston, Massachusetts; OTDA in Albany, NY; HRA in New York City, NY; OTDA's card issuance center in Manhattan, NY; and the

Metro office of the New York State Department of Mental Retardation and

Developmental Disability in Manhattan, NY. We judgmentally selected, based on the proximity to public transportation, a food stamp office in Manhattan, NY; and a public assistance center in Brooklyn, NY; to review EBT system access. Based on data analysis of manual transactions we selected four retailers in the Bronx and Queens, NY to review selected manual vouchers. Our audit covered the period October 1999 through July 2000. We conducted our fieldwork from February 2000 through July 2001.

We evaluated NERO's oversight and the OTDA's administration and management of the EBT system. During the audit we also assessed the adequacy and operation of internal controls to ensure controls were established in key operational areas in the EBT system. The operational areas included: reconciliation of State issuance data, help desk operations, fraud detection, use of EBT management reports, access to and security over the EBT system and out-of-State transactions.

The audit was conducted in accordance with generally accepted Government auditing standards.

METHODOLOGY

To accomplish our audit objectives, we reviewed applicable laws and regulations, FSP policies and procedures, and pertinent correspondence at FNS NERO, the OTDA and the HRA. We interviewed responsible OTDA, HRA, NERO, and ACS officials. We reviewed contractual arrangements between Citicorp EFS, OTDA and third-party processors. At the OTDA we assessed the adequacy of procedures, in part, by performing analysis of system access, out-of-State transactions, help desk activity, and manual transaction reports to identify trends and questionable activity.

FINDINGS AND RECOMMENDATIONS

CHAPTER 1	CONTROLS OVER EBT SYSTEM ACCESS NEED STRENGTHENING
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FINDING NO. 1

OTDA officials have not established adequate controls over EBT system access and use of system access reports. OTDA officials relied upon Citicorp EFS to develop a security plan.

However, the plan did not adequately address security procedures or controls for OTDA. Additionally, OTDA officials did not receive or utilize necessary system reports to effectively monitor EBT system access. As a result, there is increased risk of unauthorized access to EBT benefits, although no unauthorized access was identified.

FSP regulations² state the SA is responsible for protecting equipment used in food stamp data processing systems from unauthorized use. The SA must also establish procedures to protect FSP data and equipment from theft and unauthorized use.

OTDA's EBT system has users with two types of access. Users who help recipients select PINs and administrative personnel who research account information and resolve difficulties with account balances.

Authorization for system access is the same for both PIN devices³ and administrative terminals. The OTDA unit or HRA site supervisor determines if an individual needs access and the type of access they need. They complete and submit an access request form to the OTDA security officer. The security officer approves the request and then forwards it to Citicorp EFS. Citicorp EFS provides the individual with a logon ID and a first time password, which the employee must change upon their initial use. Removing an employee's access upon termination or transfer to a new location requires the location supervisor to notify the OTDA security officer of the needed change.

² Title 7, CFR 277.18(p)(2)(ii)(B), dated April 1, 1992.

³ A PIN device is an instrument used to select a new PIN.

OTDA officials provided us with a Citicorp EFS listing of individuals with user access to the EBT system. In March 2000, there were 388 logon IDs with access to the PIN devices and 417 logon IDs with access to the administrative terminals. We reviewed the listings for date of last access and duplicate logon IDs. We judgmentally selected two HRA eligibility sites to perform further testing of system access. At each HRA site, the site manager provided either a list of individuals with access or the original forms requesting access to the EBT system. We reviewed the HRA information for current employment and continued need for access. Our review disclosed the following.

- 2 of 26 employees, with access to either PIN devices or administrative terminals, at the two HRA sites reviewed, had current access but had left HRA employment. The site supervisors had not notified the OTDA security officer, as required, of the employees termination from HRA. These individuals had not accessed the EBT system during the last 6 months.
- 332 employee logon IDs with access to PIN devices had not logged onto the EBT system in more than 3 months. Active management control of logon IDs is critical to ensure that inactive and unauthorized users are removed.
- 13 pairs of logon IDs with access to administrative terminals, who had the same name, were identified. OTDA officials stated at least two pair had logon IDs for multiple locations. OTDA officials have not provided OIG with additional information about the remaining 11 pairs of logon IDs.

OTDA and HRA site supervisors were not actively managing security access or fully utilizing the capabilities of the EBT system to monitor FSP activity.

- OTDA had not performed any reviews of users to determine continued need.
- HRA site supervisors did not always know who had access to the EBT system because they did not always maintain a listing, on site, of individuals authorized. At one site, the supervisor identified one individual as having access, who did not. Also, the report provided by Citicorp EFS does not identify logon IDs by location to facilitate review by OTDA or HRA staff.
- OTDA officials did not receive nor request a report from Citicorp EFS identifying the last time staff accessed the EBT system until OIG requested such a list. This occurred because EBT staff did not recognize the usefulness of such information. With this type of report, OTDA could identify logon IDs that are not being used and should be removed.

- OTDA officials only used the “Daily Administrative Transaction Detail Report” (which identifies, by logon ID, card and case number the functions performed by State or local employees) to monitor the food benefits assigned to undercover investigations. This report could also have been used to monitor administrative terminal usage for improper activity. The following transaction types should be monitored: inactive benefits, conversion to cash, issuance of emergency benefits, and repayments of outstanding claims. For example, if no one is monitoring administrative terminal usage, a dishonest employee could review recipient accounts and identify inactive accounts to access. This unauthorized access would not be detected unless the recipient reported it to someone. No unauthorized access was identified.

Citicorp EFS prepared a draft security plan, as required by the EBT contract. The plan describes how the processor will address the security system from its perspective. This plan provides guidance for the SA for authorizing system access. However, the plan does not address security procedures for removing system access for employees upon termination or reassignment, reviewing for continuing need for system access, and identifying and removing inactive and duplicate logon IDs.

OTDA officials need to develop procedures for use by the SA and local agencies that address EBT system security, including removing system access for employees upon termination or reassignment, reviewing for continuing need for system access, and identifying and removing inactive and duplicate logon IDs. OTDA officials also need to obtain additional system access reports and make better use of reports to identify patterns and unusual access by individuals accessing the EBT system.

RECOMMENDATION NO. 1

Require OTDA to develop and implement controls for reviewing system access, including removing access for terminated employees, inactive users, duplicate logon IDs, and those who no longer have a need to access the EBT system.

FNS Response

As of April 1, 2001, OTDA developed and implemented controls for reviewing system access, including removing access for terminated employees, inactive users, duplicate logon IDs, and those who no longer have a need to access the EBT system.

OTDA has always required that local district terminal security coordinators be informed of employees who terminate employment or change responsibilities. They are also required to disable those employees' access to the appropriate NT User ID account(s) for the State's own systems. This procedure requires the terminal security coordinator to remove access via a WEBSTAR online transaction disabling the NT account. As a result of this transaction, a terminated employee is removed from access to all local district PCs, and as a result, disabling access to the desktop where the EBT administrative application resides.

OIG Position

We concur with the proposed management decision.

RECOMMENDATION NO. 2

Require OTDA to obtain and review system access reports that identify user IDs by location and a user's last access date for continuing need.

FNS Response

Beginning December 1, 2001, OTDA will receive quarterly reports identifying user IDs by county location, last login date, and last password change date. See response to Recommendation No. 1, OTDA reported they implemented controls as of April 1, 2001, for reviewing system access for continued need.

OIG Position

We concur with the proposed management decision.

RECOMMENDATION NO. 3

Require OTDA to remove logon IDs for all users who no longer have a need for access or who have been identified as inactive.

FNS Response

As of April 1, 2001, OTDA began removing logon IDs for all users who no longer needed access or who were identified as inactive. This resulted in the deletion of 1,305 administrative inquiry system users and 814 PIN terminal system users. These deletions include inactive users. This process will be completed by November 30, 2001.

OIG Position

We concur with the proposed management decision.

RECOMMENDATION NO. 4

Require OTDA to determine whether the 13 pairs of logon IDs are for the same individuals. If they are, delete the duplicate logon IDs.

FNS Response

During the recent purge (which started April 1, 2001 and will end November 30, 2001) the State eliminated the small number of duplicate IDs addressed in the report. In preparation for the next quarterly purge cycle, which begins on December 1, 2001, Citicorp EFS is preparing current listings of accounts that have not been accessed in the prior 90 days. These will be distributed to upstate and New York City supervisory staff. Districts will be required to report any additional deletes for staff that no longer need access to the Citibank system. In addition, districts will be required to provide delete forms or, if continued access is still required, to request resets for each user listed on the 90-day report.

OIG Position

We concur with the proposed management decision.

RECOMMENDATION NO. 5

Require OTDA to establish procedures for utilizing system access reports to monitor administrative terminal usage for improper activity.

FNS Response

The Daily Administrative Transaction Detail report currently consists of transactions processed using the Citicorp administrative terminal system. The update authorities of the system consist of screens that allow an authorized user to enter transactions affecting the balance of EBT accounts. These transactions include voluntary repayments, adjustments, food to cash conversions, and benefit update (new benefit adds). Benefit add transactions are centralized and only authorized to be performed by one specific Bureau of Audit and Quality Control (A&QC) fraud investigator. A&QC has always received the transaction report, and used it daily to reconcile transaction and user information for investigator cards.

OTDA recognizes that this report requires monitoring by additional individuals within the department. The OTDA will be meeting internally to identify the requirements for monitoring these transactions. They will also identify procedures and specific staff at the State and district levels, in

addition to A&QC, who will be required to review the report. OTDA anticipates that by February 1, 2002, the process will be in place to verify and confirm administrative terminal user activity for adjustments, food to cash conversion, and voluntary repayments.

OIG Position

We concur with the proposed management decision.

FINDING NO. 2

OTDA officials do not fully utilize EBT management reports provided by Citicorp EFS. OTDA officials felt certain management reports were not useful because of format problems or perceived the reports were not valuable for fraud reviews. As a result, OTDA's ability to effectively monitor the EBT system is compromised and potential improper EBT activity may not be detected.

FSP regulations⁴ state that the SA should require the EBT system to provide reports that enable the SA to manage the system. Further, the EBT contract⁵ states that reports and data extracts⁶ are deliverables necessary to the performance of essential Federal and State government operations and program management.

Citicorp EFS provides 35 different management reports to OTDA. Some of these reports are paper copies while others are in an electronic format. We reviewed the distribution and access of these management reports and determined that adequate security controls were maintained over all reports except the Manual Authorization Report. This report contains confidential recipient information and was stored in an unlocked filing cabinet. An OTDA staff person subsequently corrected this problem during the audit, by moving the report to a locked file cabinet. The OTDA fiscal staff utilizes this report for daily verification of the outstanding EBT balance.

OTDA officials did not adequately utilize EBT management reports. The reports were generally distributed as specified. However, OTDA officials requested that the EBT processor no longer provide the Exceeded PIN Attempts Report, Lost/Damaged/Stolen Card Report and the ATM/POS Out-of-State Usage Report because of report format problems or because the Bureau of Audit and Quality Control staff perceived the reports as not being useful for fraud reviews. OTDA staff stated that they reduced use of the Monthly Manual Transaction Usage Report to a minimum because past use of the report did not disclose suspicious activity. By not utilizing these reports, OTDA is reducing its ability to detect and prevent improper activity and other program related problems. OTDA staff reported that based on

⁴ Title 7 CFR 274.12 (j)(2), dated April 1, 1992.

⁵ Article VI, Section 6.1 of the EBT contract.

⁶ Defined in Section 2.8 of Appendix C of the EBT contract.

OIG's inquiry, receipt of two of the above reports were subsequently resumed.

We requested copies of the above-mentioned reports for at least a 3 month period. Based on auditor judgment, we established identifiers of potential improper activity (e.g., three or more lost, damaged, or stolen EBT cards; recipients utilizing their program benefits out-of-State at least 2 months in a row; etc.). Using these identifiers, we noted the following.

- More than 7,500 recipients reported lost, damaged, or stolen EBT cards between May and July 2000. Of these, thirteen recipients reported three or more lost, damaged or stolen cards; an indication that either they have not been properly trained regarding safeguarding the EBT card, possible improper disposal of the EBT card, or potential negligence.
- 121 recipients used almost \$17,100 of FSP benefits at POS terminals out-of-State (excluding NJ and CT) between January and March 2000. Of these, 37 recipients used approximately \$9,700 in benefits out-of-State, as far away as Arizona, Florida, Hawaii and New Hampshire, during at least 2 months of the period. According to OTDA officials, these recipients received \$22,229 in food stamp allotments during this time period. We researched twelve of these recipients (those that had used large dollar amounts or used benefits all 3 months out-of-State) and determined that all of one recipient's transactions were made out-of-State. This recipient continues to receive benefits as an active case. Seven other recipients conducted all or nearly all of their transactions out-of-State during this period but are no longer receiving program benefits. Review of this report can assist in identifying recipients who may no longer be residents of the project area.
- We reviewed paper copies of Monthly Manual Transaction Usage Reports and Manual Authorization Reports for the period October 1999 through February 2000 and determined that there were over 31,000 manual transactions totaling more than \$1.3 million. We also obtained electronic report files of these same reports for the period February through April 2000. These latter reports disclosed 10,502 manual transactions valued at more than \$484,000. We reviewed these reports to identify retailers with large volume of transactions, large dollar value of transactions, or transactions with even dollar amounts.
 - Using the paper copies, we judgmentally selected 14 manual transactions for review, based on the above criteria. We determined that 7 transactions were from large or medium size retailers, where

the probability of fraud is limited and no additional follow up was performed. For the remaining 7 transactions we either determined the reason for the manual transaction (e.g., system was down) or performed a site visit to determine whether the transaction was supported. We conducted site visits to 4 retailers to review supporting documentation. Two retailers, including one where a \$1,000 manual transaction occurred, did not maintain copies of the manual voucher for at least 3 years after the transaction was approved, as required by the retailer agreement⁷. The recipient responsible for the \$1,000 transaction was subsequently interviewed by State investigators, as a result of our audit, and dropped from the FSP.

- Using the electronic files, we also identified 47 retailers with more than 50 manual transactions, 87 retailers who processed even dollar transactions, and 2 individual manual transactions for more than \$500. These manual transactions totaled almost \$350,000. In identifying the above retailers we removed retailers who we expected to have a high number of manual transactions including retailers without EBT POS equipment, rolling stores (e.g., fruit and vegetable trucks), and a non-profit food buying cooperative (retailer who buys in bulk and provides at no or reduced cost food items to low income families). We also excluded retailers whose monthly manual transactions averaged less than \$300, and one retailer who voluntarily withdrew from the FSP. The above information was obtained from the manual transaction management reports and should be utilized by appropriate personnel to determine if potential or improper client activity has or is occurring.

OTDA officials have experienced report format and transmission problems with ten management reports, resulting in limited use of these reports. For example, one report, Monthly List of Even Dollar Transactions, was missing a data field; without this field an extraordinary amount of time could be spent unnecessarily researching voided transactions. Other reports, required by the EBT contract, were not received by the OTDA. These reports included three Daily Manual Authorization Reports and four ATM/POS out-of-State Reports. The OTDA did not impose a fine of up to \$10,000 in accordance with the EBT contract for each incident of contract noncompliance.

The NCS are working to design and develop a Specialized Fraud and Abuse Reporting System (SFARS) that will combine daily transaction detail from the EBT processor with some retailer information from FNS' Store Tracking and Redemption Subsystem and eligibility information from the States'

⁷ Standard retailer agreement for EBT program, Section 4 Paragraphs and c.

welfare systems. Fraud investigators will have the ability to manipulate this information and create customized reports to better monitor fraud-prone profiles. As of July 2001, SFARS has not been developed. In the interim, OTDA officials should make better use of the available management reports from Citicorp EFS to monitor program operations.

OTDA officials need to better utilize EBT management reports provided by Citicorp EFS or develop their own reports, establishing appropriate parameters and thresholds for identifying potential improper and questionable activity and following up on the same. They also need to ensure reports from Citicorp EFS are received and are in a useable electronic format.

RECOMMENDATION NO. 6

Direct OTDA to better utilize management reports in order to more effectively monitor the EBT system, especially the reports used to detect potential improper activity.

FNS Response

As of January 2000, A&QC determined that the Citicorp reports were consistently unreliable and elected, instead, to use EBT transaction data from the daily State Fraud and Abuse Reporting System (SFARS) extract file. Over the past 18 months, this daily extract has been accumulated in an effort to develop a database of EBT transactions. Pending the development of SFARS (targeted for August 2002) A&QC is using Audit Control Language (ACL) software to analyze the data and detect improper EBT activity, including even dollar transactions and out of State activity, so that they can take appropriate action.

OIG Position

We concur with the proposed management decision.

RECOMMENDATION NO. 7

Direct OTDA to have Citicorp EFS correct report transmission problems in a timely manner, or consider imposing fines as outlined in the EBT contract.

FNS Response

Effective January 2000, OTDA requested Citicorp EFS to start sending reports via File Transfer Protocol (FTP) to the State's host. Over the following 6 months, the State worked with the contractor to debug the

process, determine the reason files were not received, and correct the problems. Citicorp EFS instituted a help desk/trouble ticket system to log and track instances of missed files and ensure delivery. Upon receipt, the State host routes the reports to appropriate servers for access by responsible staff. Each day, State finance bureau operations and A&QC staffs review report delivery to their respective servers. In the event that a report is not received, the staff contacts the Citicorp helpdesk and the reports are re-sent. Over time, this corrective action has resulted in a vast improvement in the timeliness and completeness of reports received.

OIG Position

We concur with the proposed management decision.

RECOMMENDATION NO. 8

Direct OTDA to obtain from Citicorp EFS reports in an electronic data file format in order to more effectively monitor potential improper activity. These include Monthly Manual

Transaction Usage and ATM/POS Out-of-State Usage reports.

FNS Response

As of January 2000, A&QC determined that the Citicorp reports were consistently unreliable and elected, instead, to use EBT transaction data from the daily SFARS extract file. Over the past 18 months, this daily extract has been accumulated in an effort to develop a database of EBT transactions. Pending the development of SFARS (targeted for August 2002) A&QC is using ACL (Audit Control Language) software to analyze the data and detect improper EBT activity, including even dollar transactions and out-of-State activity, so that they can take appropriate action.

OIG Position

We concur with the proposed management decision.

RECOMMENDATION NO. 9

Direct OTDA to ensure the EBT processor is requiring retailers who complete manual transactions to maintain copies of the approved voucher in accordance with the merchant agreement.

FNS Response

As of November 1, 2001, OTDA confirmed that the EBT contractor maintains all records, required by the State and FNS, that are necessary to verify the accuracy, timeliness, completeness or reliability of the processing of EBT transactions. OTDA also ensures that the contractor obtains a signed merchant agreement from each retailer, which stipulates that they retain POS receipts and approved manual voucher copies for a period of 3 years following the transaction authorization. The agreement further requires that records involving matters of litigation be maintained by the merchant for no less than 3 years after the termination of the litigation. These requirements are to be discussed at the time the agreement is signed.

It is impossible for either the State or the EBT contractor to ensure that each and every retailer retains each and every manual voucher for 3 full years. There are no provisions in the New York contract with Citicorp EFS to have the contractor routinely or periodically verify or monitor manual voucher retention. Nor are there such provisions in any other State EBT contract. Retailers are required to maintain these records so that they can provide them to the contractor or State in the event of a dispute. Failure to do so results in a decision in favor of the household.

OIG Position

We concur with the proposed management decision.

CHAPTER 3**FSP RECIPIENTS MAY NOT HAVE ACCESS TO ALL OF THEIR PROGRAM BENEFITS**

OTDA is in non-compliance with FSP regulations relating to benefit conversion and expungement notification. Specifically, OTDA does not convert FSP benefits to cash or coupons when recipients move to a non-EBT issuance area. Also, recipients have not been provided notification of OTDA's policy for removing benefits (expungements) when EBT accounts are not accessed for a period of time. As a result, there is a risk that OTDA may deny recipients access to benefits for which they are entitled.

FINDING NO. 3**AVAILABLE FSP BENEFITS ARE NOT CONVERTED TO CASH OR COUPONS WHEN RECIPIENTS LEAVE PROJECT AREA**

OTDA does not convert FSP benefits to cash or coupons when recipients move to a non-EBT issuance area. OTDA officials require recipients moving from an EBT issuance area to a non-EBT issuance area to use their available EBT benefits or lose them. This policy was implemented because of concerns by OTDA management that maintaining food coupons was burdensome and costly, and

recipients who request that their benefits be converted to cash may not be leaving the project area, as reported. As a result, there is a risk that OTDA may deny recipients access to benefits for which they are entitled.

FSP regulations⁸ require households leaving an EBT project area to be able to convert their electronic benefits to coupons. FNS approved a waiver in August 1995 that was extended in September 1996, allowing OTDA to convert EBT benefits to cash for recipients moving to a non-EBT area.

A May 8, 1995, request by OTDA personnel proposed to cash-out FSP balances for recipients who relocate to a non-EBT location. The request cited the burdensome and costly administrative activity of storing and issuing coupons at the local or State level. The request also stated mail issuance lacked adequate security. On August 8, 1995, FNS approved the waiver as a demonstration project after the State began issuing EBT FSP benefits. On September 13, 1996, FNS approved extension of the waiver to include the EBT system implementation period. However, the waiver was not implemented by OTDA. A State EBT official stated the OTDA had concerns about individuals claiming to move to obtain cash benefits and then not actually moving.

⁸ 7 CFR Part 274.12(f)(5)(i), dated April 1, 1992.

HRA implemented a directive⁹ that states in part, “Advise participants to remove all EBT cash and food stamp benefits from their account before leaving the State.” The local area personnel stated that the policy was “use it or lose it.”

An HRA official stated that they thought the above directive, not to provide cash benefits, came from a FNS policy. They also stated that OTDA had previously attempted to obtain permission to issue cash in case of catastrophic events and had been denied the ability by FNS. Therefore, they assumed FNS would never permit the issuance of cash in any circumstances. They were unaware that FNS had approved the indicated program waiver.

During the period, February 23, 2000¹⁰ to July 31, 2000, over \$4.9 million in FSP benefits were expunged from recipient accounts. Benefits are expunged when the recipient has not accessed them for a designated period of time. OTDA’s time period is 270 days. Neither OTDA nor HRA maintained records of benefits expunged for recipient households who moved either out of State or between the city and the upstate area during this period. Potentially, a portion of these expunged benefits may have been for recipients who left the project area and were unable to convert their remaining benefits to coupons or cash.

Subsequent to fieldwork, OTDA documented a policy regarding conversion of food stamp benefits to cash when recipients move out-of-State. To ensure that recipients have access to all of their FSP benefits, OTDA needs to implement controls regarding this policy. These procedures should include monitoring by OTDA of local agency implementation.

RECOMMENDATION NO. 10

Require OTDA to implement controls to convert EBT benefits to either coupons or cash for recipients moving from an area with EBT issuance to an area without EBT issuance.

These procedures should include OTDA monitoring of local agency implementation.

FNS Response

OTDA issued an informational Letter (INF), INF 01 INF 14, to all local district commissioners on August 6, 2001. The INF instructed local districts that when a New York State food stamp recipient moves to a Non-Quest State,

⁹ HRA Policy Directive No. 99-24R(2), dated February 22, 2000.

¹⁰ Earliest date FSP expungement data was available.

the local district must convert the recipient's available FS EBT benefits to cash.

Since New York State is fully operational in EBT, there is no conversion issue with recipients moving from district to district within New York State.

OTDA has assured FNS that in the rare instance that a complaint is received, the State will work to resolve the issue. Since the inception of EBT in New York, fewer than five such complaints have been registered.

OIG Position

We concur with the proposed management decision.

FINDING NO. 4

RECIPIENTS NEED TO BE INFORMED OF THE BENEFIT EXPUNGEMENT POLICY

Recipients are not notified nor do recipient training materials provide adequate information to the recipient about OTDA's expungement policy. Without knowledge of the policy, a recipient may not be aware that after 270 days of inactivity, FSP benefits would no longer be available to purchase eligible food items.

OTDA's training package or video did not provide adequate written or verbal notice to households concerning the expungement of their FSP benefits. Once any portion of a household's benefits reaches 9 months without use, Citicorp EFS expunges all remaining benefits in the household's account. However, recipients are not informed that this action will occur.

FSP regulations¹¹ state that if EBT accounts are inactive for 3 months, the SA may store such benefits off-line and then expunge benefits that have not been accessed by the household after a period of 1 year. However, the SA should attempt to notify the household of this action and describe the steps necessary to bring the benefits back on-line. FNS approved two waivers impacting the above regulations, dated August 10, 1995. The waivers allowed OTDA to expunge benefits after a full 9 months of inactivity rather than after a period of 1 year. It also required households to be notified at the time they receive training (initial, ongoing and re-certification) of reactivation procedures, rather than when EBT benefits are moved off-line.

No inactive or dormant period exists for food stamp benefits at OTDA. Benefits are not taken off-line until they are expunged. All benefits in an account are expunged when some or all of those benefits have not been accessed for 270 days. Almost 25,500 households' food stamp benefits,

¹¹ Title 7, CFR Part 274.12(f)(7), dated April 1, 1992.

totaling more than \$4.9 million, were expunged during the period February 3, 2000¹² through July 30, 2000. At OTDA, if a recipient requests that benefits still eligible for use be reinstated, OTDA will manually calculate the amount of available benefits and re-post them to the recipient's account. In FY 2001, OTDA reported that there were no requests for reinstatement of benefits. OTDA officials stated they are currently preparing written procedures, which will require each local office to reinstate FSP benefits that are still available for use, but they did not have an estimated date for implementation.

The EBT Overview Training Manual, dated November 1998, for HRA staff and supervisors to familiarize themselves with EBT, discusses the OTDA policy on expungement and reinstatement of benefits. However, the recipient training materials do not mention the State's expungement policy. Additionally, a video shown continuously at eligibility locations, where recipients' eligibility is determined, briefly states that benefits not used would be lost. We reviewed the OTDA's training video and noted that it had a vague reference to expungements, but there was no mention of the period that benefits remain active. During our site visits to income support and food stamp office waiting rooms, we observed that this video is difficult to watch and listen to because of the number of individuals present and the related distractions that occur. Without knowledge of the expungement policy, a recipient would not be aware that after 270 days of inactivity they would no longer have access to expunged food benefits and would have to request restoration of eligible benefits in order to use them.

OTDA needs to incorporate its expungement policies in its recipient training materials to ensure that all recipients are aware that unused FSP benefits will be expunged after 270 days of inactivity.

RECOMMENDATION NO. 11

Direct OTDA to revise its recipient training materials to include its expungement policy.

FNS Response

A description of expungement policy is now provided to recipients in the Client Information Booklet, revised in August 2001, to reflect this information. Supplies of these information booklets are available in Local Department Social Service reception areas and are required to be included in application and recertification packages.

¹² Expungement information prior to this period did not separately identify cash and food stamp benefits.

OIG Position

We concur with the proposed management decision.

RECOMMENDATION NO. 12

Direct OTDA to develop written procedures to reinstate FSP benefits that are still available for use.

FNS Response

The OTDA is developing a release to local districts specifically addressing the reissuance of expunged FS benefits less than 270 days old if requested by the recipient. This release, 00 ADM-8, is scheduled for issuance in January 2002.

OIG Position

We concur with the proposed management decision.

GENERAL COMMENTS

OTDA prepares a daily reconciliation which compares the amount Citicorp EFS reported as deposited into recipients' accounts and the amount the Welfare Management System (WMS) reported that should have been deposited in each recipient's account. These are not actual deposits, but the benefit amount OTDA authorizes recipients.

Prior to posting benefits, a recipient account must be established. OTDA authorizes Citicorp EFS to create recipient accounts each business day by transmitting a batch file that includes the required account information. OTDA authorizes FSP benefits to these accounts by transmitting them to Citicorp EFS in either recurring files or special files. OTDA transfers recurring files to Citicorp EFS about ten days prior to the benefits' availability date. OTDA transfers special files to Citicorp EFS each business day, the availability date is generally the next business day.

Citicorp EFS does not post benefits to an account upon receiving OTDA's file, but maintains the benefits in a pending file until the arrival of the availability date. Once the current date equals the availability date, Citicorp EFS posts the benefits to the recipient accounts during their end of day routine. OTDA may cancel their authorization of benefits (called a pending void) for a recipient any time up until the day the benefits are posted to the account. If Citicorp EFS is unable to post the benefits to an account, for whatever reason, Citicorp EFS places the benefits into an "uncashable" account and transmits a copy of this file to OTDA. OTDA transmits this information, daily, to each eligibility office. The eligibility office is then responsible for taking action to determine why the benefits did not post and correct any problems identified. Citicorp EFS will maintain these benefits in the "uncashable" account for 30 days, trying to post them each day. After 30 days, Citicorp EFS will delete the benefit amounts.

The summary of the WMS data (called the Deposit Verification report) reviews the WMS issuance files and totals the number and dollar value of benefits authorized for the day. The Deposit Verification report adjusts these numbers by the day's benefits Citicorp EFS reported as "uncashable", and the amount of that day's "pending void" and "uncashable" benefits posted to recipient accounts. OTDA's finance office personnel compare the day's deposit amount computed by the Deposit Verification report to the deposit amount listed on the day's Citicorp EFS report (State issuer report). If there are differences, a review is initiated to determine what caused the difference. Based on discussion with OTDA officials and review of 1 month's

reconciliations, OTDA, generally, identified and resolved differences during FY 2000.

On February 23, 2000, OTDA's reconciliation process did not initiate a review of a \$380,115 difference identified between deposit amounts in WMS and Citicorp EFS records. OTDA officials believed that the identified difference occurred because WMS ran the Deposit Verification report prior to WMS finishing its end of day processing. As a result, OTDA did not ensure that all authorized benefits were posted to the Citicorp EFS EBT system for this date.

FSP regulations¹³ state the EBT system should provide reports and documentation pertaining to reconciliation. Specifically, reconciliations should be conducted and records kept of benefits posted to household accounts on the central computer against benefits on the issuance authorization file, and of total funds entered into, exiting from, and remaining in the EBT system each day.

On February 23, 2000, we noted a \$380,115 difference between what Citicorp EFS said was deposited into recipients' accounts and the amount WMS stated should have been posted. Citicorp EFS' State issuer report showed a "deposit" of \$394,637 while the Deposit Verification report showed a "deposit" of \$14,522.

We requested OTDA to provide details of its review into the difference. They stated they could not determine why the difference occurred because the WMS could not recreate the "deposits" by date without significant reprogramming of the WMS. OTDA officials speculated the WMS completed the Deposit Verification report, on the Friday before a State holiday, prior to WMS finishing its end of day processing which caused WMS not to pick up all the benefits that were to be available February 23, 2000.

We assessed OTDA's process for reconciling Citicorp EFS data to WMS data and found for all other days of the month of February 2000, all differences identified were resolved in a timely fashion.

The Deposit Verification report is normally run after the close of business, however, on this date, it appears it was run prior to close of business and the result was a timing error. Recognizing that the timing of this report must occur at the close of business, OTDA requires that this report be run at the proper time and has not had this type of problem occur again.

¹³ Title 7, CFR 274.12 (j) (1) (i) and (v), dated April 1, 1992.

We are not making any recommendations because OTDA has implemented controls to identify, review, and resolve differences identified in the reconciliation of EBT transactions.

EXHIBIT A – FNS REGIONAL OFFICE RESPONSE TO DRAFT REPORT

Page 1 of 7



**United States
Department of
Agriculture**

Food and
Nutrition
Service

Northeast Region

10 Causeway St.
Room 501
Boston, MA 02222

November 21, 2001

Marlane T. Evans
Regional Inspector General for Audit
USDA, Office of Inspector General
Northeast Region, Suite 2-2230
5601 Sunnyside Avenue, Stop 5300
Beltsville, MD 20705-5300

Dear Ms. Evans:

This letter is in response to the New York Electronic Benefits Transfer (EBT) System Audit #27099-16-Hy. We are including the following corrective actions taken or planned to each of the audit recommendations to be incorporated into the final report.

FINDING 1 – CONTROLS OVER EBT SYSTEM ACCESS NEED STRENGTHENING

Please note that there is an error under the first bullet on page 6 of the official draft. The error is in the line that reads "OTDA officials only used the "Daily Administrative Transaction Detail Report" (which identifies, by logon ID, the transactions performed by a **recipient**)". The word "recipient" should be changed to "State or local employee".

RECOMMENDATION NO. 1: Require the Office of Temporary and Disability Assistance (OTDA) to develop and implement controls for reviewing system access, including removing access for terminated employees, inactive users, duplicate logon IDs, and those who no longer have a need to access the EBT system.

FNS response: As of April 1, 2001, OTDA developed and implemented controls for reviewing system access, including removing access for terminated employees, inactive users, duplicate logon IDs, and those who no longer have a need to access the EBT system.

Access to the EBT administrative inquiry system by local district and State staff is limited almost exclusively to inquiry functions. Update authority is strictly controlled through user ID and profile security measures.

As of April 1, 2001, the State reviewed the entire user ID databases for the administrative inquiry system and PIN terminal IDs resulting in deletion of 1,305 administrative inquiry system users and 814 PIN terminal system users. Because some EBT data is available on the State's computer system, the State determined that a large group of employees no longer needed access to the administrative terminals. These deletions also included inactive users.

OTDA has always required that local district terminal security coordinators be informed of employees who terminate employment or change responsibilities. They are also required to disable those employees' access to the appropriate NT User ID account(s) for the State's own systems. This procedure requires the terminal security coordinator to remove access via a WEBSTAR online transaction disabling the NT account. As a result of this transaction, a terminated employee is removed from access to all local district PCs, and as a result, disabling access to the desktop where the EBT administrative application resides.

We are requesting your concurrence with FNS management decision.

RECOMMENDATION NO. 2: Require OTDA to obtain and review system access reports that identify user IDs by location and a user's last access date for continuing need.

FNS response: Beginning December 1, 2001, OTDA will receive quarterly reports identifying user IDs by county location, last login date, and last password change date.

We are requesting your concurrence with FNS management decision.

RECOMMENDATION NO. 3: Require OTDA to remove log-on IDs for all users who no longer have a need for access or who have been identified as inactive.

FNS response: As of April 1, 2001, OTDA began removing log-on IDs for all users who no longer needed access or who were identified as inactive. This resulted in the deletion of 1,305 administrative inquiry system users and 814 PIN terminal system users. These deletions include inactive users. This process will be completed by November 30, 2001.

We are requesting your concurrence with FNS management decision.

RECOMMENDATION NO. 4: Require OTDA to determine whether the 13 pairs of logon IDs are for the same individuals. If they are, delete the duplicate logon IDs.

FNS response: During the recent purge (which started April 1, 2001 and will end November 30, 2001) the State eliminated the small number of duplicate IDs addressed in the report. In preparation for the next quarterly purge cycle, which begins on December 1, 2001, Citicorp EFS is preparing current listings of accounts that have not been accessed in the prior 90 days. These will be distributed to upstate and New York City supervisory staff. Districts will be required to report any additional deletes for staff that no longer need access to the Citibank system. In addition, districts will be required to provide delete forms or, if continued access is still required, to request resets for each user listed on the 90-day report.

We are requesting your concurrence with FNS management decision.

RECOMMENDATION NO. 5: Require OTDA to establish procedures for utilizing system access reports to monitor administrative terminal usage for improper activity.

FNS response: The Daily Administrative Transaction Detail report currently consists of transactions processed using the Citicorp administrative terminal system. The update authorities of the system consist of screens that allow an authorized user to enter transactions affecting the balance of EBT accounts. These transactions include voluntary repayments, adjustments, food to cash conversions, and benefit update (new benefit adds). Benefit add transactions are centralized and only authorized to be performed by one specific Bureau of Audit and Quality Control (A&QC) fraud investigator. A&QC has always received the transaction report, and used it daily to reconcile transaction and user information for investigator cards.

OTDA recognizes that this report requires monitoring by additional individuals within the department. The OTDA will be meeting internally to identify the requirements for monitoring these transactions. They will also identify procedures and specific staff at the State and district levels, in addition to A&QC, who will be required to review the report. OTDA anticipates that by February 1, 2002 the process will be in place

to verify and confirm administrative terminal user activity for adjustments, food to cash conversion, and voluntary repayments.

We are requesting your concurrence with FNS management decision.

FINDING 2 - EBT SYSTEM MANAGEMENT REPORTS NEED TO BE BETTER UTILIZED

RECOMMENDATION NO. 6: Direct OTDA to better utilize management reports in order to more effectively monitor the EBT system, especially the reports used to detect potential improper activity.

FNS response: As of January 2000, A&QC determined that the Citicorp reports were consistently unreliable and elected, instead, to use EBT transaction data from the daily State Fraud and Abuse Reporting System (SFARS) extract file. Over the past 18 months this daily extract has been accumulated in an effort to develop a database of EBT transactions. Pending the development of SFARS (targeted for August 2002) A&QC is using Audit Control Language (ACL) software to analyze the data and detect improper EBT activity, including even dollar transactions and out of State activity, so that they can take appropriate action.

We are requesting your concurrence with FNS management decision.

RECOMMENDATION NO. 7: Direct OTDA to have Citicorp EFS correct report transmission problems in a timely manner, or consider imposing fines as outlined in the EBT contract.

FNS response: Effective January 2000, OTDA requested Citicorp EFS to start sending reports via File Transfer Protocol (FTP) to the State's host. Over the following six months, the State worked with the contractor to debug the process, determine the reason files were not received, and correct the problems. Citicorp EFS instituted a help desk/trouble ticket system to log and track instances of missed files and ensure delivery. Upon receipt, the State host routes the reports to appropriate servers for access by responsible staff. Each day, State finance bureau operations and A&QC staffs review report delivery to their respective servers. In the event that a report is not received, the staff contacts the Citicorp helpdesk and the reports are re-sent. Over time, this corrective action has resulted in a vast improvement in the timeliness and completeness of reports received.

We are requesting your concurrence with FNS management decision.

RECOMMENDATION NO. 8: Direct OTDA to obtain from Citicorp EFS reports in an electronic data file format in order to more effectively monitor potential improper activity. These include Monthly Manual Transaction Usage and ATM/POS Out-of-State Usage reports.

FNS response: As of January 2000, A&QC determined that the Citicorp reports were consistently unreliable and elected, instead, to use EBT transaction data from the daily SFARS extract file. Over the past 18 months this daily extract has been accumulated in an effort to develop a database of EBT transactions. Pending the development of SFARS (targeted for August 2002) A&QC is using ACL (Audit Control Language) software to analyze the data and detect improper EBT activity, including even dollar transactions and out-of-State activity, so that they can take appropriate action.

We are requesting your concurrence with FNS management decision.

RECOMMENDATION NO. 9: Direct OTDA to ensure the EBT processor is requiring retailers who complete manual transactions to maintain copies of the approved voucher in accordance with the merchant agreement.

FNS response: As of November 1, 2001, OTDA confirmed that the EBT contractor maintains all records, required by the State and FNS, that are necessary to verify the accuracy, timeliness, completeness or reliability of the processing of EBT transactions. OTDA also ensures that the contractor obtains a signed merchant agreement from each retailer, which stipulates that they retain POS receipts and approved manual voucher copies for a period of three years following the transaction authorization. The agreement further requires that records involving matters of litigation be maintained by the merchant for no less than three years after the termination of the litigation. These requirements are to be discussed at the time the agreement is signed.

It is impossible for either the State or the EBT contractor to ensure that each and every retailer retains each and every manual voucher for three full years. There are no provisions in the New York contract with Citicorp EFS to have the contractor routinely or periodically verify or monitor manual voucher retention. Nor are there such provisions in any other State EBT contract. Retailers are required to maintain these

records so that they can provide them to the contractor or State in the event of a dispute. Failure to do so results in a decision in favor of the household.

We are requesting your concurrence with FNS management decision.

FINDING NO. 3 – FSP RECIPIENTS MAY NOT HAVE ACCESS TO ALL OF THEIR PROGRAM BENEFITS

RECOMMENDATION NO. 10: Require OTDA to implement controls to convert EBT benefits to either coupons or cash for recipients moving from an area with EBT issuance to an area without EBT issuance. These procedures should include OTDA monitoring of local agency implementation.

FNS response: OTDA issued an Informational Letter (INF), INF 01 INF-14, to all local district commissioners on August 6, 2001. The INF instructed local districts that when a New York State food stamp recipient moves to a Non-Quest State, the local district must convert the recipient's available FS EBT benefits to cash.

Since New York State is fully operational in EBT, there is no conversion issue with recipients moving from district to district within New York State.

OTDA has assured FNS that in the rare instance that a complaint is received, the State will work to resolve the issue. Since the inception of EBT in New York, fewer than five such complaints have been registered.

We are requesting your concurrence with FNS management decision.

FINDING NO. 4 – RECIPIENTS NEED TO BE INFORMED OF THE BENEFIT EXPUNGEMENT POLICY

RECOMMENDATION NO. 11: Direct OTDA to revise its recipient training materials to include its expungement policy.

FNS response: A description of expungement policy is now provided to recipients in the Client Information Booklet, revised in August 2001 to reflect this information. Supplies of these information booklets are available in Local Department Social Service reception areas and are required to be included in application and recertification packages.

We are requesting your concurrence with FNS management decision.

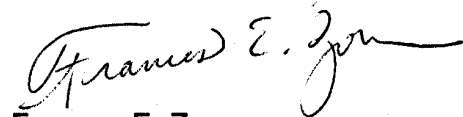
RECOMMENDATION NO. 12: Direct OTDA to develop written procedures to reinstate FSP benefits that are still available for use.

FNS response: The Division of Temporary Assistance is developing a release to local districts specifically addressing the reissuance of expunged FS benefits less than 270 days old if requested by the recipient. This release, 00 ADM-8, is scheduled for issuance in January 2002.

We are requesting your concurrence with FNS management decision.

If you have any questions regarding the above, please feel free to contact Robert Canavan at 617-565-6397.

Sincerely,



Frances E. Zorn
Administrator
Northeast Region

cc: Sharon Eldred, Acting Director, Grants Mgmt Division/FNS/HQ

ABBREVIATIONS

ACS	
Affiliate Computer Services	2
CFR	
Code of Federal Regulations	1
EBT	
Electronic Benefits Transfer	i
EFS	
Electronic Financial Services	i
FNS	
Food and Nutrition Service	i
FSP	
Food Stamp Program	i
FY	
Fiscal Year	2
HRA	
Human Resources Administration	2
ID	
Identification	iii
NCS	
Northeast Coalition of States	i
NERO	
Northeast Regional Office	i
OTDA	
Office of Temporary and Disability Assistance	i
PIN	
Personal Identification Number	1
POS	
Point-of-Sale	1

SA	
State Agency	1
SFARS	
Specialized Fraud and Abuse Reporting System.....	12
WMS	
Welfare Management System.....	21