



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

Food and Nutrition Service
Electronic Benefits Transfer
System Development
State of Hawaii



Report No.
27099-17-SF
SEPTEMBER 2001



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Western Region - Audit

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DATE: September 6, 2001

REPLY TO

ATTN OF: 27099-17-SF

SUBJECT: Food and Nutrition Service, Electronic Benefits Transfer System
Development, State of Hawaii

TO: Allen Ng
Regional Administrator
Western Region
Food and Nutrition Service

ATTN: Stephen Pichel
Western Region EBT Coordinator

This report presents the results of our audit of the Electronic Benefits Transfer System Development in the State of Hawaii. Your August 21, 2001, written response to the draft report is included as Exhibit C of this report. Excerpts from your response are incorporated into the relevant sections of the report. We accept your management decision for all audit recommendations.

Departmental Regulation 1720-1 requires that the final action be completed within 1 year of the date of management decision. Please 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 by your staff during this audit.

/s/

SAM W. CURRIE
Regional Inspector General
for Audit

EXECUTIVE SUMMARY

FOOD AND NUTRITION SERVICE ELECTRONIC BENEFITS TRANSFER SYSTEM DEVELOPMENT STATE OF HAWAII

AUDIT REPORT NO. 27099-17-SF

RESULTS IN BRIEF

This report presents the results of our review of the electronic benefits transfer (EBT) system development in the State of Hawaii.

We performed this review as a part of a nationwide audit of established controls over EBT operations at State Agencies. We selected the State of Hawaii, Department of Human Services (DHS) for review upon the recommendation of Food and Nutrition Service (FNS) Regional Office in San Francisco.

Our objectives were to evaluate the adequacy of established controls and to assess whether those controls were functioning as designed.

We determined that FNS had not adjusted the Account Management Agent (AMA) system and Automated Standard Application for Payments (ASAP) system to account for the unrecorded repayment of food stamp benefits that occurred during the period of October 1998 to July 1999. Since food stamp repayments are reductions to benefit issuance authorizations, the unrecorded repayments overstated AMA system and ASAP balances by \$11,818.

DHS procedures limited EBT participant access of their online benefits to 90 days, in a 1996 waiver approved by FNS. We determined however that DHS was keeping stale benefits online and available for up to 249 days of inactivity; well beyond the 90 days it told FNS it would adhere to. Per regulation, stale benefit accounts are those food stamp benefit accounts, which are not accessed for three months or longer.¹

Finally we determined that DHS did not reconcile all the individual household account balances in the EBT processor's record with the daily issuance amounts for January through March 2001. This occurred because the individual responsible for the reconciliation process went on long-term sick leave and no backup person was assigned to perform this

¹ 7 CFR 274.12(f)(7), dated January 1, 2000.

task. As a result, there was no assurance that the proper daily issuance amount was credited to the proper individual household accounts.

KEY RECOMMENDATIONS

We recommend that FNS:

- Adjust AMA system and ASAP balances to account for unrecorded FSP repayments made during October 1998 through July 1999 (see exhibit A).
- Instruct DHS to submit a revised waiver to FNS showing how the State will be processing stale benefits.
- Instruct DHS to assign a backup person to perform reconciliation when the regularly assigned employee is unavailable to complete the assignment.

AGENCY RESPONSE

In its August 21, 2001, written response to the draft report, FNS generally agreed with the report's findings and recommendations.

Applicable portions of the FNS' response are incorporated, along with our position, in the Findings and Recommendations section of this report. The full text of the response is included as exhibit C of the report.

OIG POSITION

We accept FNS' management decisions for all 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	2
FINDINGS AND RECOMMENDATIONS	4
CHAPTER 1	4
OPERATING CONTROLS OVER THE EBT SYSTEM NEED IMPROVEMENT.....	4
FINDING NO. 1.....	4
RECOMMENDATION NO. 1	5
FINDING NO. 2.....	5
RECOMMENDATION NO. 2	6
FINDING NO. 3.....	7
RECOMMENDATION NO. 3	8
RECOMMENDATION NO. 4	8
RECOMMENDATION NO. 5	9
GENERAL COMMENTS.....	10
EXHIBIT A – SUMMARY OF MONETARY RESULTS	11
EXHIBIT B – AUDIT SITES VISITED.....	12
EXHIBIT C – FNS’ RESPONSE TO DRAFT REPORT	13
ABBREVIATIONS.....	15

INTRODUCTION

BACKGROUND

The U.S. Department of Agriculture, Food and Nutrition Service (FNS) administers the Food Stamp Program (FSP). The FSP assists low-income households by increasing their ability

to purchase food. In the past, the basic method of FSP benefit delivery was the food stamp coupon. Once a month, each participating household received an allotment of coupons determined by the number of individuals in the family, household income, and other related factors. Recipients could use the coupons to pay for food items at participating food retailers. 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 electronic benefits transfer (EBT) system. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Public Law 104-193, provides that all States must implement EBT systems before October 1, 2002. EBT provides benefit access through automated teller machines and point-of-sale (POS) terminals located at approved retailers. It replaces the paper-based coupon delivery system with an electronic system.

On July 1, 1997, the State of Hawaii Department of Human Services (DHS) signed a contract with Citicorp Services Inc., for processing EBT transactions in the State. Throughout this report, Citicorp Services is referred to as the EBT processor.

DHS uses an on-line magnetic card EBT system. On-line systems use the existing debit card technology developed by financial institutions. DHS provides a plastic benefit card to each FSP household. The card has a magnetic strip containing basic information to make food purchases. At an authorized FSP retailer, the recipient presents the card and enters a personal identification number into a POS terminal. The terminal communicates with a central database, which maintains recipient account balance information, which has been transferred from DHS' FSP certification system. The central database verifies the amount of benefits available, authorizes the transaction, and deducts the purchase amount from the household's account. The system also calculates the cumulative FSP sales for each retailer and authorizes payment electronically to the retailers' bank accounts daily. FNS field offices authorize retailer participation in the FSP. Citicorp Services also has access to FNS'

Retailer EBT Data Exchange (REDE) subsystem, which lists retailers who have current authorization.

The FSP is administered by the FNS through a Federal-State partnership. The Federal Government pays the full cost of recipient benefits and shares the cost to administer the FSP with the State. Congress funds the FSP through direct appropriation. From October 2000 through February 2001, the State of Hawaii's Electronically Transferred Food Stamp benefits were approximately \$64 million to an average of 52 thousand households (an average of \$247 per household).

OBJECTIVES

The overall objectives of the audit were to evaluate the adequacy of established controls and assess whether those controls function as designed. Specifically, we (1) identified internal controls established in key operational areas; (2) included tests to ensure controls were in place and operated as designed; and (3) provided an assessment on the adequacy of prescribed controls for the Hawaii EBT system.

SCOPE

This audit was part of a nationwide audit of the EBT system. Our audit reviewed the controls established to ensure the State of Hawaii's integrity of the EBT system, and assess DHS's operation for FY 2001 (October 2000 through February 2001). Fieldwork was performed from March 20, 2001, through April 18, 2001. We performed audit fieldwork at: (1) FNS Western Regional Office in San Francisco, California, (2) FNS Field Office in Honolulu, Hawaii, (3) DHS State Office in Honolulu, Hawaii, (4) DHS Benefits Employment Support Services Division (BESSD) Staff Development Office in Honolulu, Hawaii, and (5) DHS BESSD Oahu Branch, Kuakini Unit in Honolulu, Hawaii (see exhibit A).

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

METHODOLOGY

To accomplish the overall objectives and support our findings we performed the following steps:

- We reviewed EBT policies, program procedures, and pertinent correspondence at FNS, and DHS;
- We interviewed responsible FNS personnel and DHS officials managing the EBT project;

- We visit the field office to further assess the operating controls;
- We reviewed records of the operating controls implemented at DHS; and
- We analyzed records and controls established to ensure the integrity of the EBT system.

FINDINGS AND RECOMMENDATIONS

CHAPTER 1	OPERATING CONTROLS OVER THE EBT SYSTEM NEED IMPROVEMENT
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We found that overall the controls over the Hawaii electronic benefits transfer (EBT) system were functioning as prescribed. However, we noted that (1) FNS needs to adjust AMA/ASAP balances to account for unrecorded repayments; (2) the State of Hawaii Department of Human Services (DHS) kept stale benefits online for up to 249 days of inactivity, well beyond the 90 days it told FNS in a 1996 waiver; and (3) DHS did not reconcile all the individual household account balances in the EBT processor's record with the daily issuance amounts.

FINDING NO. 1

AMA/ASAP BALANCE OVERSTATED DUE TO UNRECORDED REPAYMENTS

FNS had not adjusted the AMA/ASAP balance to account for unrecorded repayments of food stamp benefits from October 1998 through July 1999. The EBT processor had erroneously not recorded these repayments and when the error was detected and reported by the State of Hawaii in September 1999, FNS had instructed the State to wait until the

FNS National Office determines the corrective action. However, as of April 2001, FNS had not corrected AMA/ASAP balances resulting in an overstatement of \$11,818.

FNS established the AMA system to account for its FSP funds. The ASAP is a centralized system for the payment of FSP retailers. Each day, EBT processors transmit the total amount of benefit authorizations to the AMA system where the benefits are accumulated. The AMA system provides the approved State benefit authorization information to ASAP. The EBT processor can draw Federal funds up to the cumulative amount of benefit authorizations for the State recorded in the ASAP system. The AMA system transfers the total amount of benefit authorizations from all States in the agency financial management system, which posts the authorization data as FSP obligations in the financial statements. The accuracy of AMA/ASAP balances are critical to ensure the agency financial obligations are fairly stated.

FSP repayments are reductions to FSP issuance authorizations and must be deducted from the AMA/ASAP balance. However, due to processor

error, the State of Hawaii had not offset the following FSP repayments with FSP issuance authorizations totaling \$11,818:

Month/ Year	Amount
10/98	\$ 226.00
02/99	\$ 2,364.85
03/99	\$ 2,436.96
04/99	\$ 1,666.56
05/99	\$ 1,856.35
06/99	\$ 1,908.03
07/99	\$ 1,359.53
TOTAL	\$ 11,818.28

According to FNS Regional office representatives, they are currently working with the FNS National Office in adjusting the AMA/ASAP balances for the State of Hawaii to account for the unrecorded repayments.

RECOMMENDATION NO. 1

Adjust AMA system and ASAP balances at the U.S. Treasury to account for the unrecorded food stamp repayments made during the period of October 1998 through July 1999.

Agency Response

FNS made the adjustments to AMA and ASAP balances as of August 10, 2001.

OIG Position

We accept FNS' management decision on this recommendation.

FINDING NO. 2

**STATE AGENCY WAS NOT
ADHERING TO AN APPROVED
WAIVER**

DHS was keeping stale benefits online and available for up to 249 days of inactivity; well beyond the 90 days it told FNS it would adhere to. DHS established the 90-day limit in a 1996 waiver from FNS, but when it later decided to extend online access to the benefits, it did not seek to modify the waiver. As a result of DHS's actions, security of EBT

benefits in the State of Hawaii, although within regulatory guidelines, was less restrictive than FNS was aware.

Federal regulations state:

If EBT accounts are inactive for three months or longer, the State agency may store such benefits offline. The State agency shall expunge benefits that have not been accessed by the household after a period of one year.²

DHS requested a waiver of this regulation, which FNS approved on March 20, 1996. In our opinion, the waiver would increase security over the benefits by limiting their online exposure to 90 days:

Benefits would be available 90 days on-line, stored off-line for six months and available only on client request and specific reauthorization by the DHS.³

The processor's computer system keeps benefits online and available for up to 249 days of inactivity. After 249 days of inactivity, the computer system automatically changes the benefits to an unavailable⁴ status. DHS's Investigations Office has 21 days while the account is unavailable (starting from the 250th thru 270th-day), to collect potential overpayments. At 271 days of inactivity, EBT benefits are expunged by the processor's computer system.

We asked DHS why benefits were kept online for so long. A DHS official stated that DHS wanted to provide EBT participants access to their benefits for as long as possible before the benefits were expunged at 271 days. We also asked why they did not modify the 1996 waiver so FNS would be aware they were extending online access to the benefits. DHS stated that after the implementation of the EBT system, they forgot to submit a revised waiver to FNS. As a result of DHS's actions, access to stale EBT benefits in the State of Hawaii, although within the regulatory guidelines of 1 full year, was less restrictive than FNS was aware.

RECOMMENDATION NO. 2

Instruct DHS to submit a revised waiver to FNS showing how the State will be processing stale benefits.

Agency Response

The State of Hawaii has requested that the waiver be withdrawn and FNS granted the approval of the request.

² 7 CFR 274.12 (f)(7)(i)&(ii), dated January 1, 2000.

³ State agency waiver deviating from 7 CFR 274.12 (f)(7), approved by FNS on March 20, 1996.

⁴ When benefits become unavailable, EBT participants must contact their caseworker to reactivate their account.

OIG Position

We accept FNS' management decision on this recommendation.

FINDING NO. 3

HOUSEHOLD ACCOUNTS WERE NOT TIMELY AND PROPERLY RECONCILED

DHS did not reconcile the individual household account balances in the EBT processor's record with the daily issuance amounts from January to March 2001. This occurred because the individual responsible for the reconciliation process went on long-term sick leave in December 2000 and no backup person was assigned to perform this

task. As a result, there was no assurance that the proper daily issuance amount was credited to the proper individual household accounts.

Regulations¹⁰ required reconciliation of benefits posted to household accounts on the central computer against benefits on the Issuance authorization and account activities on a daily basis. Performing household accounts reconciliation on a daily basis will allow DHS to reconcile 100 percent of the daily issuance.

In our review of the reconciliation process between daily issuances to individual household accounts, we asked DHS for the last month this reconciliation was completed. We were informed that the last completed month was December 2000. DHS said that a daily, 100-percent reconciliation for the months of January through March 2001 had not been done. DHS stated that they were aware of the regulation stating this was suppose to be done on a daily basis at the 100-percent level.

DHS management informed us that in December 2000 the person responsible for this reconciliation process went on medical sick leave. Because of this, the DHS staff did not have time to reconcile all of the individual household accounts on a daily basis.

During our fieldwork, DHS decided to select a judgmental sample of the accounts. It decided to perform reconciliation for only those accounts that showed the largest daily issuances and those accounts whose DHS daily issuances did not agree with the EBT processor's daily issuances. However, this process had not been done for the months of January through March 2001 when we started our review.

Towards the end of the fieldwork, the DHS staff provided to us the January through March 2001 reconciliation of the household accounts using the judgmental sampling method described above. The

¹⁰ 7 CFR274.12 (j)(i)&(ii), dated January 1, 2000.

reconciliation showed the sample of DHS' daily issuances that did not agree with the EBT processor's daily issuances. It did not show the sample of the largest daily issuances. However, performing a reconciliation based on judgmental sampling methods still does not meet program requirements. As noted, the regulations require that 100-percent reconciliation be performed.

RECOMMENDATION NO. 3

Instruct DHS to reconcile a 100-percent of the individual household accounts for the 3 outstanding months, January through March 2001.

Agency Response

FNS has verified that the information for the 3 months is correct and properly supported by State records.

OIG Position

We accept FNS' management decision on this recommendation.

RECOMMENDATION NO. 4

Instruct DHS in the future to reconcile all individual household account balances on a daily basis.

Agency Response

FNS issued a letter to the State of Hawaii on August 16, 2001, referring to the EBT regulatory requirement of reconciling individual household account balances on a daily basis.

OIG Position

We accept FNS' management decision on this recommendation.

RECOMMENDATION NO. 5

Instruct DHS to assign a backup person to perform daily reconciliation when the regularly assigned employee is unavailable to complete the assignment.

Agency Response

FNS issued a letter to the State of Hawaii on August 16, 2001, requesting that a backup person be assigned to this task.

OIG Position

We accept FNS' management decision on this recommendation.

GENERAL COMMENTS

On the island of Lanai, one branch office worker was allowed to both authorize and issue EBT cards. As a result, there was no separation of duties on Lanai, leaving the branch office vulnerable to inappropriate EBT issuances.

Federal regulations state:

State agencies should divide issuances responsibilities between at least two persons to prevent any single individual from having complete control over the authorization of issuances and the issuances themselves. If issuance functions in an office are handled by one person, a second party review shall be made...⁵

Since the office consisted of one individual, the worker was given computer access to both the EBT authorization menu and the issuance menu. Ordinarily, branch office staff is given access to either menu, not both.

We determined that the worker's supervisor, located on another island, performed a remote cursory phone review of all the authorizations on a bimonthly basis. On a quarterly basis, the supervisor performed a comprehensive review on a select number of cases, which were physically brought to the supervisor by the caseworker. For EBT card issuances, the supervisor reviewed all of card issuances before they were approved and, on a monthly basis, reconciled card issuances to monthly reports.

According to federal regulations, if there is only one person handling all issuance functions, a second party review shall be conducted. We determined that currently the caseworker position, on the island of Lanai, is vacant. Therefore, DHS has to ensure that adequate training is conducted. DHS also has to ensure that the branch office supervisor continues to conduct second party reviews because DHS had one caseworker with access to both menus, which could lead to misuse of the EBT system.

⁵ 7 CFR 274.3 (d)(2), dated January 1, 2000.

EXHIBIT A – SUMMARY OF MONETARY RESULTS

RECOMMENDATION NUMBER	DESCRIPTION	AMOUNT	CATEGORY
1	Adjust AMA system and ASAP balances to account for unrecorded FSP repayments	\$11,818	Questioned Costs-recovery recommended
TOTAL OVERPAYMENT		\$11,818	

EXHIBIT B – AUDIT SITES VISITED

OFFICE	LOCATION
Food and Nutrition Service, Western Regional Office	San Francisco, California
Food and Nutrition Service, Honolulu Field Office	Honolulu, Hawaii
Department of Human Services State Office	Honolulu, Hawaii
Department of Human Services Benefits Employment Support Services Division, Staff Development Office	Honolulu, Hawaii
Department of Human Services Benefits Employment Support Services Division, Oahu Branch Kuakini Unit	Honolulu, Hawaii

EXHIBIT C – FNS' RESPONSE TO DRAFT REPORT



United States Department of Agriculture
Food and Nutrition Service

Western Region

Reply to
Attn of: 27099-17-SF

AUG. 21 2001

Subject: Official Draft—Food and Nutrition Service, Electronic Benefits Transfer System Development,
State of Hawaii

To: Sam W. Currie
Regional Inspector General for Audit
Office of Inspector General

We are responding to your July 20, 2001, memorandum, requesting our comments on the audit report's findings and recommendations. The report contained five recommendations and our comments are stated below.

Recommendation No. 1: Adjust AMA and ASAP balances at the U.S. Treasury to account for the unrecorded food stamp repayments made during the period of October 1998 through July 1999. The repayments for this period amounted to \$11,818.28.

FNS Response: We have verified through AMA (see AMA screen-print attached), that the full adjustment for \$11,818.28 was transacted on August 10, 2001. Hawaii has been notified of the transacted amount and the effective date.

Recommendation No. 2: Instruct DHS to submit a revised waiver to FNS showing how the State will be processing state benefits.

FNS Response: In Hawaii's June 29, 2001, letter they have requested a withdrawal of the previously approved waiver. In our July 20, 2001, response letter (attached) we acknowledged the withdrawal of the waiver. Furthermore, we emphasized that Hawaii will now:

- ⇒ store Food Stamp Program (FSP) benefits on-line for three months,
- ⇒ store stale FSP benefits off-line for nine months, and
- ⇒ expunge those benefits after one year.

Recommendation No. 3: Instruct DHS to reconcile a 100-percent of the individual household accounts for the 3 outstanding months, January through March 2001.

FNS Response: Since April 2001, we have been in weekly telephone and email communication with DHS, regarding their EBT reconciliation efforts. Additionally, we perform monthly EBT reconciliation assessment reports, which compare AMA issuance data with the issuance reported by Hawaii on the FNS-46 and FNS-388 reports. From our monthly assessment report (copy attached), Hawaii's AMA and FNS-46/388 issuance data have not reflected any variance for the months of January through March 2001.

Recommendation No. 4: Instruct DHS in the future to reconcile all individual household account balances on a daily basis.

FNS Response: We perform monthly EBT reconciliation assessment reports, which compare AMA issuance data with the issuance reported by Hawaii on the FNS-46 and FNS-388 reports. From our monthly assessment report (copy attached), Hawaii's AMA issuance data continues to match their FNS-46 issuance data. Hawaii would be required to submit a written explanation for any month, wherein our assessment report reflects a variance (AMA versus FNS-46 issuance) of \$2 million and or 2 percent. Also, in our August 16, 2001, letter (attached), we referred to this EBT regulatory requirement 7 CFR 274.12 (j)(1)(ii), regarding the daily reconciliation of individual household account balances against account activities.

Recommendation No. 5: Instruct DHS to assign a backup person to perform daily reconciliation when the regularly assigned employee is unavailable to complete this assignment.

FNS Response: In our August 16, 2001, letter (attached), we asked DHS to confirm the designation of a backup person for the daily EBT reconciliation task.

Thank you for the opportunity to discuss the audit findings and recommendations, in our joint exit conference. We appreciate the further opportunity to provide our written audit comments.

If you have any questions, please call Dave Gott of our financial management staff at (415) 705-1332, extension 231.

for 
ALLEN NG
Regional Administrator

Attachments

cc: Dennis Stewart, RD, FSP, WRO

ABBREVIATIONS

AMA	Account Management Agent System
ASAP	Automated Standard Application for Payments
BESSD	Benefits Employment Support Services Division
CFR	Code of Federal Regulations
DHS	Department of Human Services
EBT	Electronic Benefits Transfer system
FNS	Food and Nutrition Service
FNSRO	Food and Nutrition Service Regional Office
FSP	Food Stamp Program
FY	Fiscal Year
HAWI	Hawaii Automated Welfare Information
OIG	Office of Inspector General
POS	Point-of-Sale
REDE	Retailer EBT Data Exchange System
USDA	United States Department of Agriculture

