



U.S. Department of Agriculture
Office of Inspector General
Great Plains Region
Evaluation Report

Food and Nutrition Service
Strategic Monitoring of the Utah EBT
System Development Phase IV
Mountain Plains Regional Office
Denver, Colorado



Report No.
27801-5-KC
June 2000



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Great Plains Region - Audit

P.O. Box 293

Kansas City, Missouri 64141



DATE: June 9, 2000

REPLY TO

ATTN OF: 27801-5-KC

SUBJECT: Strategic Monitoring of the Utah EBT System Development Phase IV

TO: William E. Ludwig
Regional Administrator
Food and Nutrition Service, USDA
1244 Speer Boulevard, Suite 903
Denver, CO 80204

This report presents the results of our evaluation of the development of the Utah EBT system. The review disclosed that the system had been successfully implemented but that some system and procedural enhancements were needed. We also noted that State Agency procedures related to monitoring group living arrangements could be improved.

Your May 26, 2000, written response is included as exhibit A of the report. We understand that upon receipt of this report, your staff will present the findings and recommendations to the State Agency for their response. In order to reach management decisions on the recommendations, we need to be informed as to the final corrective action taken by the State Agency. Please furnish a reply within 60 days describing the corrective actions taken or planned for each of the recommendations, including timeframes for implementation. Note that Departmental Regulation 1720-1 requires a management decision be reached for all findings and recommendations within a maximum of 6 months after report issuance. We appreciated the cooperation and assistance extended by the Regional office staff during the review.

/s/

EDWIN D. LINDERMAN
Regional Inspector General
for Audit

Attachment

EXECUTIVE SUMMARY

FOOD AND NUTRITION SERVICE STRATEGIC MONITORING OF THE UTAH EBT SYSTEM DEVELOPMENT PHASE IV

EVALUATION NO. 27801-5-KC

RESULTS IN BRIEF

Electronic Benefits Transfer (EBT) represents a new system for disbursing Food Stamp Program (FSP) benefits. We initiated this review to provide an evaluation of the adequacy of established controls over EBT operations for the FSP in Utah and an assessment on whether controls functioned as designed. The evaluation disclosed the Utah EBT system was successfully implemented. The Utah EBT system, including contractor operations, had sufficient procedures to ensure proper training and issuance of benefit cards, security over unissued benefit cards, and proper controls over and usage of EBT management reports.

The Utah Department of Workforce Services needed to improve controls in some areas to strengthen EBT administration and reduce the risk to FSP funds from waste, loss, unauthorized use, and misappropriation. The State agency (SA) did not maintain adequate security and accountability over issued EBT cards that were returned through the mail. We also found that, although the EBT system was properly paying benefits to residents at group living arrangements, controls needed to be strengthened to ensure that these facilities are adhering to program requirements. In addition, the SA was not performing required monitoring visits of these group facilities.

The SA also needed to strengthen controls over access to the EBT system. The SA had not cancelled user logon identifiers (ID's) in the EBT system for persons no longer employed at the State and local county offices. Also, the SA had not maintained a listing of the last date each authorized user accessed the EBT system to ensure persons no longer working with the system were removed as authorized users.

KEY RECOMMENDATIONS

We recommended the Mountain Plains Regional Office (MPRO) (1) require the SA to develop procedures to improve the security and accountability over returned EBT cards, (2) require the SA to improve controls at group living arrangements, and conduct required monitoring visits of these facilities, and (3) require SA personnel to establish and implement written procedures for monitoring logon ID's and reviewing

user access permission on a periodic basis and canceling logon ID's as appropriate to the extent possible under current EBT contract provisions and cost limits.

AGENCY RESPONSE

The written response to the evaluation dated May 26, 2000, showed that FNS was in general agreement with the findings and recommendations. The response showed disagreement with our recommended corrective action related to accounting for food purchases by group living arrangements and disagreement with some of the wording in two of the recommendations as originally presented in our draft report.

OIG POSITION

We generally concurred with the FNS concerns and changed the report accordingly. We also concur with the proposed corrective action for the reported conditions as shown in the FNS response and have included additional clarification of our recommendation related to accounting for food purchases by group living arrangements. We incorporated the officials' comments in the applicable sections of the report and attached a copy of the written response as exhibit A.

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INTRODUCTION

BACKGROUND

The Food and Nutrition Service (FNS), an agency of the U.S. Department of Agriculture, administers the Food Stamp Program (FSP).

The FSP assists low-income households by increasing their ability to purchase food. FNS administers the FSP 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 States. Congress funds the FSP through direct appropriation.

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. As an innovation of the mid-1980's, Electronic Benefits Transfer (EBT) was developed to replace paper coupons with an electronic system. EBT systems are a computerized version of the food benefits delivery process. Using plastic cards, much like debit cards, recipients gain access to benefits through point-of-sale (POS) terminals located at approved food retailers.

FNS pioneered EBT system development with a demonstration project in Reading, PA, beginning in 1984. FNS compared the Reading EBT system for food stamps to coupon-based issuance in terms of administrative cost, vulnerability to benefit loss and abuse, and the impact on participating food retailers. The evaluation showed that EBT had a positive effect on each measured area except administrative cost. Widespread interest in EBT was expressed, despite the high cost of operating the first system. The Personal Responsibility and Work Opportunity Reconciliation Act, P.L. 104-193, required that States implement EBT systems before October 1, 2002. As of April 1999, 38 States and the District of Columbia had operational food stamp EBT systems. Fiscal year (FY) 1999 FSP benefits are expected to exceed \$20 billion, with EBT issuing approximately \$9.4 billion in benefits. Beginning in October 1995, the State of Utah started delivering FSP benefits via an EBT system with statewide implementation completed in April 1996.

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

that meet each State's individual needs. Generally, States award contracts to private sector companies to develop and operate their EBT systems. However, the States remain financially liable to the Federal Government for the actions of their EBT processors. These companies are usually organizations that already handle electronic funds transfer activities.

States may implement either open or closed EBT systems. Open systems use joint agreements between groups of States and/or the Federal Government to exchange data between members. Several alliances of States have been formed or are negotiating contracts to implement open systems, including the Southern Alliance of States, the Northeast Coalition of States, and the Western States EBT Alliance. Open systems, generally permit redemption of benefits at retailers in all States in the alliance. Closed systems do not provide service beyond the State's borders. Currently, Utah is independent and is not associated with any alliances of States.

FSP participants in Utah are provided a plastic benefit card. The card has a magnetic stripe containing basic identifying information to make food purchases. At the retailer, the recipient presents the card and enters a unique personal identification number (PIN) into a POS terminal. The POS terminal communicates with a central database which maintains recipient account balance information. The central database verifies the amount of benefits available, authorizes the transaction, and debits the household account for the amount of the purchase. The EBT system calculates the cumulative FSP sales for each retailer and authorizes payment by electronic transfer of funds to retailer bank accounts.

FNS established the Account Management Agent (AMA) to improve its monitoring and management of FSP funds paid via EBT. FNS' management of FSP funds involves several automated systems including FNS' accounting system, the Agency Financial Management System (AFMS); the AMA system; and the Automated Standard Application for Payments (ASAP) system. Payment of FSP retailers occurs through ASAP. ASAP is a centralized system for the request and delivery of Federal funds developed by the U.S. Department of the Treasury and the Federal Reserve Bank.

Each day, EBT processors transmit the total amount of benefit authorizations to AMA where the benefits are accumulated. The AMA provides the approved State benefit authorization information to the ASAP. The EBT processor can draw Federal funds up to the cumulative amount of approved benefit authorizations in the ASAP system. AMA transfers the total amount of benefit authorizations from all States to AFMS. AFMS posts the authorization data as FSP obligations. EBT processors enter their payment requests into ASAP. ASAP verifies that a sufficient unliquidated obligation balance exists, the difference between cumulative State benefit authorizations and previous payments, and then pays the EBT processor. Each day AMA extracts the

payment information from ASAP and updates each State account. AMA transfers the total payment for all States to AFMS. AFMS posts the payment data as liquidations of FSP obligations.

Periodically, the EBT processor transfers FSP redemption data to FNS' Store Tracking, Authorization and Redemption Subsystem (STARS). STARS supports the entry and maintenance pertaining to the 186,000 retailers authorized by FNS to redeem food coupons and EBT transactions.

Zions Bank is the prime contractor for the Utah EBT system. However, a subcontractor, Deluxe Data, performs all of the EBT processing including posting the benefit authorizations to the client's accounts. Zions Bank performs all of the settlement transactions which includes payments to retailers. Both Zions and Deluxe deliver and install POS terminals at participating stores. The local food stamp office determines if the recipient is eligible for food stamp benefits and enters necessary recipient data into the State system.

OBJECTIVES

The primary objective of the review was to provide an evaluation of the adequacy of Utah EBT internal controls and an assessment on whether controls functioned 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 of the adequacy of prescribed controls.

SCOPE

The evaluation was conducted at the FNS Mountain Plains Regional Office (MPRO), the Office of Inspector General (OIG) Investigations in Denver, Colorado, and the Utah Department

of Workforce Services in Salt Lake City, Utah. We evaluated the MPRO oversight of the EBT system and the State agency's (SA) administration and management of the EBT system for the FSP. In addition, we identified EBT operational concerns by OIG Investigations. We conducted our fieldwork from August 1999 through October 1999. Our review dealt with transactions that occurred primarily in FY 1999. The evaluation did not include reviews at retailers or local food stamp county offices.

The evaluation was performed in accordance with the Quality Standards for Inspections issued by the President's Council on Integrity and Efficiency.

METHODOLOGY

To accomplish the objectives of the evaluation, we relied on documentary, analytical, and testimonial evidence. We visited and interviewed personnel at the MPRO, OIG- Investigations in Denver, Colorado, and the SA in Salt Lake City, Utah. In addition, we obtained, reviewed, and analyzed files from each of the offices mentioned above. Our analysis dealt with transactions that occurred primarily in FY 1999. We evaluated internal controls over SA reconciliation of FSP authorization data and claims collections, help desk operations, fraud detection, benefit availability, the EBT processor's internal control structure, EBT management reports, returned EBT benefit cards, aged FSP benefits, conversion of EBT authorizations to coupons, use of and access to EBT benefits in group living arrangements, and access to and security over the EBT system. We compared the Utah EBT operation with the requirements of the Food Stamp Act of 1977, as amended, and with 7 CFR, sections 246, 272, 273, 274, 276, and 277.

FINDINGS AND RECOMMENDATIONS

CHAPTER 1	INTERNAL CONTROLS OVER EBT NEED STRENGTHENING
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We found that overall, the controls over the Utah EBT system were functioning as prescribed. The Department of Workforce Services was performing adequate reconciliation reviews, and the MPRO's oversight activities were adequate. However, we noted that controls could be improved in several areas. The SA needs to establish written procedures to ensure that EBT benefit cards returned to the SA through the mail are properly accounted for and adequately secured. The SA also needs to improve controls over access to the EBT system by identifying and removing users who no longer need access.

FINDING NO. 1

SECURITY AND ACCOUNTABILITY OVER ISSUED EBT CARDS RETURNED TO THE SA WAS NOT ADEQUATE

The SA did not track or maintain adequate security and accountability over issued EBT cards that had been returned to the SA through the mail. This occurred because the SA did not have procedures in place which clearly defined the process for handling returned EBT cards. As a result, benefit cards were vulnerable to theft and misuse.

Recipients notify either the local food stamp office or the EBT processor of lost or stolen EBT cards. Subsequently, the EBT card is deactivated and a new card and PIN, if applicable, are issued to the recipient.

The SA had 82 EBT cards in their possession that had been returned through the mail. Lost and found EBT cards are returned to the SA from a variety of sources including: grocery stores, banks, private citizens, drivers license division, and the EBT contractor as some cards are captured by automatic teller machines. These 82 EBT cards were not kept in a locked safe. Instead, the cards were stored in an open cubicle on top of a desk. The SA had not checked the current status of the cards to ensure that the cards were deactivated and could no longer be used to obtain benefits. No log was maintained by the SA to document the serial numbers of EBT cards returned to the SA, nor were the cards subsequently deactivated and destroyed. Our review showed that the 82 cards had accumulated over a period of about 4 weeks. SA officials said that the official assigned the duties

of security and accountability over the cards had been on sick leave for at least 2 weeks. Further review showed that 9 of the 82 cards were still active, and 4 of the 9 cards contained food stamp benefits valued at about \$494.

SA personnel said that their policy is to check the status, deactivate, and destroy returned EBT cards. However, our review showed that this process was not always done in a timely manner. The SA needs to develop written procedures to document the process for handling and securing returned EBT cards. The procedures should include steps to properly secure, immediately log, deactivate, and destroy returned EBT cards.

RECOMMENDATION NO. 1

Require the SA to develop procedures to improve the security and processing of returned EBT benefit cards. This should include procedures for maintaining adequate physical security over the cards, logging, deactivating, and destroying logged cards.

FNS Response

The written response to the audit dated May 26, 2000, showed that FNS concurred with the finding and recommendation.

OIG Position

In order to reach a management decision on this recommendation, we need to be informed as to the corrective action taken by the SA.

RECOMMENDATION NO. 2

Require the SA to ensure that duties of employees are separated to ensure that adequate personnel are always available to provide necessary security and accountability over returned EBT cards.

FNS Response

The written response to the audit dated May 26, 2000, showed that FNS concurred with the finding and recommendation.

OIG Position

In order to reach a management decision on this recommendation, we need to be informed as to the corrective action taken by the SA.

FINDING NO. 2
OBSELETE LOGON ID'S NOT
CANCELLED

The SA had not cancelled logon identifiers (ID) for 19 individuals in the EBT system who were no longer employed by the State. This occurred because controls used by the SA did not always detect terminated employees with active logon ID's. Also, the SA had not maintained a listing

of the last date each authorized user accessed the system.¹ This occurred because the SA had not requested such listing from the EBT processor. As a result, the SA was unable to properly evaluate who had access to the EBT system and if the access was needed.

We obtained a listing of authorized EBT system users from the SA. We also obtained a listing of individuals that had terminated employment with the State, in the last 6 months, from the SA Personnel Department. We compared the two listings and found 19 individuals with active logon ID's who were no longer employed by the State. Further review showed that these 19 individuals still had access to the mainframe and the Public Assistance Case Management Information System (PACMIS), which is the SA computer system.

SA personnel stated that supervisors at the State and local county offices are supposed to notify the Security Officer when an employee is terminated. The Security Officer would then revoke their access, if any, to the EBT system. Our review showed this information was not always provided to the Security Officer in a timely manner. SA personnel also stated that if they are not notified of an employee's termination, other backup systems were in place which would revoke the employee's access. For example, if an employee does not access the system within 60 days, the system would automatically revoke their access. The system would also revoke an employee's access if the employee does not receive a paycheck. However, our September 1999 review showed eight individuals with active logon ID's who had been terminated as far back as March and April 1999. SA personnel informed us that the Security Officer does not receive a monthly listing from the State Personnel Department which shows State and county employees that have been terminated.

¹ 7 CFR, part 274, section 274.12(h)(3)(v), dated January 1, 1999, states, "A separate EBT security component shall be incorporated into the State agency Security Program for Automated Data Processing (ADP) systems where appropriate and as prescribed under 277.18(p) of this chapter. The periodic risk analyses required by the Security Program shall address the following items specific to an EBT system: (A) EBT system vulnerability to theft and unauthorized use;...(C) Vulnerability to tampering with or creating household accounts;"

7 CFR, part 277, section 277.18(p)(1), dated January 1, 1999, states, "State and local agencies are responsible for the security of all ADP projects under development, and operational systems involved in the administration of the Food Stamp Program."

In addition, the SA could not monitor the last date each authorized user accessed the EBT system to ensure persons no longer working with the system were removed as authorized users. This occurred because the SA did not request regularly scheduled reports, from the EBT processor, showing the last system access date for each authorized user. Therefore, no such reports were provided by the EBT processor.

RECOMMENDATION NO. 3

Require SA personnel to establish and implement written procedures for monitoring logon ID's and reviewing user access permission on a periodic basis and canceling logon ID's as appropriate to the extent possible under current EBT contract provisions and cost limits.

FNS Response

The written response to the audit dated May 26, 2000, showed that FNS concurred with the finding and recommendation.

OIG Position

In order to reach a management decision on this recommendation, we need to be informed as to the corrective action taken by the SA.

The Utah Department of Workforce Services needed to implement additional controls over GLA's to ensure they were adhering to FSP requirements, including the requirements for using EBT benefits only for authorized purposes and providing refunds of benefits to departing clients when appropriate. We found that no GLA's had been visited for over a 1-year period. Although the EBT system was functioning properly in providing benefits to residents at GLA's, the lack of controls and monitoring reduced assurance that (1) benefits were only paid to eligible food stamp recipients; (2) benefits were only spent for authorized food purchases; and (3) clients received required benefit refunds when leaving the GLA.

FINDING NO. 3**GROUP LIVING ARRANGEMENTS
WERE NOT MONITORED**

Required monitoring visits were not conducted at GLA's to ensure that eligible food stamp recipients were residing at GLA's, proper amounts of benefits were returned to recipients when they left the facility, and authorized GLA representatives were using FSP benefits only

for authorized food purchases. Utah Department of Workforce Services personnel said that they were not aware that their agency was made responsible for conducting reviews of GLA's during a reorganization in July 1997. As a result, there was limited assurance that food stamp benefits were being used for authorized purposes at GLA's.

Utah Department of Workforce Services personnel stated that prior to July 1997, the Utah Department of Human Services conducted monitoring reviews of GLA's. The Utah Department of Workforce Services was created during a reorganization which was completed in July 1997. According to SA officials, the Department of Workforce Services was not informed until about the fall of 1998 that they were responsible for monitoring GLA's.

Federal regulations require GLA's to provide the SA with a listing of currently participating FSP residents, and that the listing be required on a periodic basis.² However, no such listings were provided to the SA. The SA is also required by Federal regulations to conduct periodic random onsite visits at

² 7 CFR, 273.11 (f) (2), dated January 1, 1999, states, "Each group living arrangement shall provide the SA with a list of currently participating residents. The list shall include a statement signed by a responsible center official attesting to the validity of the list."

GLA's to ensure the accuracy of the listing of eligible residents.³ According to the information provided by the SA, there were 46 GLA's in Utah. The Department of Workforce Services had conducted only one onsite visit to a GLA during FY 1999. This visit was conducted in March 1999. No other onsite visits had been made since the reorganization in July 1997.

In addition, the GLA is required to return half of the household's monthly benefits if the household leaves the facility prior to the 16th of the month.⁴ The SA had not been conducting monitoring visits to ensure GLA's were returning required portions of food stamp benefits to departing households. Proper monitoring of the EBT system, visits to the facilities, and keeping track of funds spent by the group homes, could help ensure departing clients are properly refunded, through EBT, for appropriate benefits.

a. Controls Need Improving at Group Homes With POS Terminals

In Utah, some GLA's have POS terminals which process food stamp transactions. The recipients swipe their EBT cards through the terminal, enter their personal identification number (PIN), and their food stamp benefits are transferred to the GLA's financial institution as cash. The GLA may write checks or use cash to purchase food for residing food stamp recipients. However, there were no controls in place to ensure that food stamp purchases made by the facilities were for authorized purchases. Also, controls were not in place to account for all money withdrawn from the bank and spent on food items, or to ensure that all money was timely redeposited back into the bank which was not spent on food. We believe that without proper controls in place, food stamp benefits, accessed by the facility as cash, will be vulnerable to theft as well as other misuse.

b. Controls Need Improving at Group Homes With Alternate Payee

At other GLA's, a representative of the facility is assigned as the alternate payee on the recipient's EBT card. The alternate payee will actually be issued an EBT card and will purchase food for the recipient. The recipient's card will be inoperative as long as the alternate payee is assigned to the card. According to SA officials, the alternate payee may shop with as many as 10 to 20 cards. However, controls were not in place at these facilities to ensure that the GLA does not spend all

³ 7 CFR, part 273, section 273.11(f)(2), dated January 1, 1999, states, "the State agency shall conduct periodic random onsite visits to assure the accuracy of the list and that the State agency's records are consistent and up to date."

⁴ 7 CFR, part 273, section 273.11(f)(5)(i), dated January 1, 1999, states that, if the household leaves the group living arrangement prior to the 16th of the month, the facility shall provide the household with its ID card, if applicable, and one half of its monthly coupon allotment.

benefits off any one card. This is important because the recipient is entitled to have one-half their benefits returned if they leave the facility prior to the 16th of the month. As stated above, the required listings of currently residing food stamp recipients is not obtained from GLA's. The listings should be obtained to ensure that the alternate payee is timely removed from the recipient's EBT card when the recipient departs the facility. The recipient will then be able to use their EBT card and make their own food purchases. Otherwise, the alternate payee will be able to continue making food purchases from the recipient's account even though the recipient will no longer be residing at the GLA.

RECOMMENDATION NO. 4

Direct the SA to implement procedures to require all group living arrangements provide the SA with listings of eligible FSP residents on a periodic basis.

ENS Response

The written response to the draft report by FNS stated that monitoring of group living arrangements was outside the scope of EBT, and FNS would be referring this finding to their Program Operations Section for corrective action.

OIG Position

In order to reach a management decision on this recommendation, we need to be informed as to the corrective action taken by the SA.

RECOMMENDATION NO. 5

Require the SA to make reviews of group living arrangements records and EBT data to ensure that participants receive the proper amount of benefits when they leave the facility.

ENS Response

The written response to the draft report by FNS stated that monitoring of group living arrangements was outside the scope of EBT, and FNS would be referring this finding to their Program Operations Section for corrective action.

OIG Position

In order to reach a management decision on this recommendation, we need to be informed as to the corrective action taken by the SA.

RECOMMENDATION NO. 6

Direct the SA to determine if it is feasible to develop EBT reports that would show the use and refund, if applicable, of each client's benefits.

FNS Response

The written response to the draft report by FNS stated that monitoring of group living arrangements was outside the scope of EBT, and FNS would be referring this finding to their Program Operations Section for corrective action.

OIG Position

In order to reach a management decision on this recommendation, we need to be informed as to the corrective action taken by the SA.

RECOMMENDATION NO. 7

Require the SA to implement procedures to ensure onsite visits of group living arrangements are made on a periodic basis.

FNS Response

The written response to the draft report by FNS stated that monitoring of group living arrangements was outside the scope of EBT, and FNS would be referring this finding to their Program Operations Section for corrective action.

OIG Position

In order to reach a management decision on this recommendation, we need to be informed as to the corrective action taken by the SA.

RECOMMENDATION NO. 8

Direct the SA to establish controls to ensure that purchases made by GLA's which use POS terminals are for authorized purchases, and that all food stamp funds deposited and withdrawn from their bank to make food purchases is supported by store receipts, accounting records, and bank statements.

FNS Response

The written response to the draft report, by FNS, stated that there are no provisions that an organization such as a GLA cannot commingle funds and must have two different bank accounts in order to maintain food stamp allotments separate from its normal financial activities. This would subject an organization to additional banking expenses, additional labor costs, and bookkeeping requirements that are unsupported. FNS also stated that they were confused by our statement, using EBT benefits only for authorized purposes.

OIG Position

We agree there is no requirement that GLA's establish separate bank accounts for food stamp benefits. However, we believe that GLA's should be required to establish and maintain records which show the amount of food stamp benefits received, the amount of food purchases, and the amount refunded to clients. We believe the GLA should have sufficient records, such as store receipts, to document that food purchases were made in an amount equal to or exceeding EBT benefits received for each month. Bank statements can be used to show the amount of EBT benefits deposited and withdrawn. The EBT system already documents refunds to clients.

In order to reach a management decision on this recommendation, we need to be informed as to the corrective action taken by the SA to ensure that EBT benefits are properly accounted for and used only for authorized food purchases.

EXHIBIT A – FNS REGIONAL OFFICE REPLY TO THE EVALUATION



United States Department of Agriculture
Food and Consumer Service

Mountain Plains Region

Reply to: MPFS-400.FS 9-4-3-1
Attn of:

MAY 26 2000

Subject: FSP - Utah Audit Response Number 27801-5-KC
To:

Edwin D. Linderman
Regional Inspector General for Audit
USDA, Office of Inspector General
P.O. Box 293
Kansas City, Missouri 64141-6205

This memorandum is in response to Mr. Linderman's memo dated April 27, 2000, transmitting the official draft report of the subject audit. With the exception of the comments provided below, we agree with all the audit background information, findings and recommendations. Our comments are as follows:

- Chapter 2, page 9 - In the first paragraph, Item 2)...benefits were only spent for authorized food purchases... is placing a requirement on the Utah State Agency (and other states) that is not supported by the Food Stamp Act, regulations or policy. There are no provisions that an organization such as a GLA cannot commingle funds and must have two different bank accounts in order to maintain food stamp allotments separate from its normal financial activities. Therefore, to require this would subject an organization to additional banking expenses, additional labor costs, and bookkeeping requirements that are unsupported. Regulations will support that a GLA must be able to make appropriate refunds to its clients, even though food stamp allotments have been commingled with other funds in a common bank account.
- Also, we are uncertain about the meaning of the statement, "including the requirements for using EBT benefits only for authorized purposes." Since GLA monitoring is outside the scope of EBT as far as the food stamp regulations are concerned, we are referring this finding to our Program Operations Section for corrective action. We will include the actions in our response to your office. Therefore, we recommend this requirement be removed from Chapter 2 and that Recommendation No. 8 (page 12) be removed from the audit report.

When the final audit report is received, we will provide it to the Utah State Agency and request corrective action(s) for the recommendations.

Edwin Linderman

If you have any questions, Will Holmes may be contacted at (303) 844-0340.



for

ALLAN C. NICKELS
Regional Director
Food Stamp Program

ABBREVIATIONS

ADP	
Automated Data Processing	1
AFMS	
Agency Financial Management System	2
AMA	
Account Management Agent.....	2
ASAP	
Automated Standard Application for Payments	2
CFR	
Code of Federal Regulations.....	1
EBT	
Electronic Benefits Transfer.....	1
FNS	
Food and Nutrition Service	1
FSP	
Food Stamp Program.....	1
FY	
Fiscal Year	1
GLA	
Group Living Arrangement.....	9
ID	
Identifier	6
MPRO	
Mountain Plains Regional Office	3
OIG	
Office of Inspector General.....	3

PACMIS
Public Assistance Case Management Information System 7

PIN
Personal Identification Number..... 2

POS
Point-of-Sale 1

SA
State Agency 3

STARS
Store Tracking and Redemption Subsystem 3

Informational copies of this report have been distributed to:

FNS Regional Administrator, MPRO	(6)
FNS, Liaison Officer	(2)
General Accounting Office	(1)
Office of Management and Budget	(1)
Office of the Chief Financial Officer	
Director, Planning and Accountability Div.	(1)