



U.S. Department of Agriculture

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Office of Inspector General  
Western Region

## Audit Report

### **Food and Nutrition Service's Continued Monitoring of EBT Operations – State of California Department of Social Services**

Report No. 27099-35-SF  
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UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

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REPLY TO

ATTN OF: 27099-35-SF

TO: Allen Ng  
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Western Region  
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ATTN: Cynthia Turner  
Director of Financial Management

FROM: Frederick San Buenaventura /s/  
Regional Inspector General  
for Audit

SUBJECT: Food and Nutrition Service's Continued Monitoring of EBT Operations –  
State of California Department of Social Services

As part of a nationwide review, the Office of Inspector General (OIG) audited the Electronic Benefits Transfer (EBT) operations through which the California Department of Social Services (CDSS) helps people in need buy food. Our overall objective was to evaluate CDSS' EBT controls, oversight, and the department's compliance with relevant laws and regulations. We did not identify any significant conditions in these areas.

However, we did find a minor potential vulnerability in two county offices that assigned EBT card custodians (who store and secure the cards) backup authority as card operators (who activate cards) to issue cards if operators were absent. We determined that the offices should keep these duties separate to prevent one person from being able to both access and activate EBT cards. Officials at both county offices concurred with our analysis and agreed to segregate EBT custodians' card storage responsibility from operators' activation authority.

**BACKGROUND**

In 1977, Congress passed the Food Stamp Act which established a permanent program to assist low-income households by increasing their ability to buy food. The program is now

titled the Supplemental Nutrition Assistance Program (SNAP).<sup>1</sup> The Food and Nutrition Service (FNS) administers SNAP through Federal-State partnerships. The Federal Government pays for the food benefits itself but shares SNAP's administration costs with States. Qualifying participants receive SNAP benefits through EBT cards, which replaced paper coupons (i.e., food stamps) in 2005 and work like debit cards for buying food.

CDSS oversees SNAP in California where 58 county welfare departments deliver EBT cards by either mailing them or holding them for pickup. Once activated, the Government adds benefits to eligible cards once a month. In total, CDSS oversaw over \$2.6 billion worth of benefits for 827,258 households in fiscal year 2007.

## **OBJECTIVE**

Our overall objective was to evaluate the adequacy of established controls and the effectiveness of EBT oversight efforts in California. Specifically, we (1) assessed the operation of EBT system controls established for the EBT processors and CDSS activities, (2) evaluated the adequacy of CDSS' administration and oversight of EBT operations in California, and (3) reviewed CDSS' and county welfare offices' compliance with applicable laws and regulations.

## **SCOPE**

We performed audit work at FNS' Western regional office (WRO), FNS' Los Angeles field office, CDSS' State office, California Office of Systems Integration<sup>2</sup>, and two California counties, Alameda and Los Angeles (see exhibit A). We judgmentally selected Los Angeles and Alameda because both were within the top ten counties in California that received SNAP benefits in March 2008. Los Angeles recipients received the highest SNAP benefits for the month with over \$70 million while Alameda recipients received \$8.5 million. In Los Angeles, we selected 2 of 31 district offices (Metro Special and South Family) with the largest issuance of SNAP benefits from January 2008 to March 2008. We selected the most recent available (monthly or quarterly) records from June 2007 through May 2008.

We reviewed the following areas for compliance with applicable laws and regulations, and with the State's EBT processor's contract:

- EBT system security
- Integrity of EBT benefits delivered to recipients
- FNS WRO oversight over CDSS
- CDSS management of its EBT system

We performed our fieldwork from February 2008 through August 2008.

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<sup>1</sup> Public Law 95-113.

<sup>2</sup> Its mission is to procure, manage and deliver technology systems that support the delivery of health and human services to Californians.

## **METHODOLOGY**

To accomplish our objectives, we performed the following procedures:

- We reviewed applicable laws, regulations, policies, guidance, active State waivers, and FNS regional office's management evaluations related to the EBT system.
- We interviewed key staff at FNS' regional and field offices, CDSS' State office, county offices, district offices, and EBT processor to determine their oversight responsibilities and controls used to monitor the EBT system in California.
- At FNS' Los Angeles field office, we reviewed retailer payment data from the EBT processor for evidence of unusual activities.
- At CDSS' State office we assessed internal controls to determine if they were adequate and whether or not CDSS' policies and procedures complied with applicable laws and regulations. Specifically, we reviewed waivers, contracts, manuals, policies and instructions, and fee schedules. We also examined CDSS' EBT system records to assess the procedures established for authorizing access to the EBT system. We reviewed CDSS' reconciliation procedures of the State Certification System Data to the EBT Processor Data, and to the Automated Standard Application for Payment. We also reviewed the stale and expunged benefits records.
- At the Los Angeles and Alameda county offices, we identified, tested, and assessed internal controls. Specifically, we reviewed procedures authorizing and restricting access to the EBT. We assessed the adequacy of the manual transaction processing procedures. We reviewed the reconciliation procedures of EBT system authorizations to the certification system to ensure information reported to and by CDSS agreed with data in the processor's EBT system and the Account Management Agent system. We assessed control over and use of EBT management reports and we reviewed security controls relating to the issuance of EBT cards. We also examined the process to investigate out-of-State EBT transactions.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **CONCLUSION AND REQUIRED AGENCY ACTION**

Except for the minor separation of duties vulnerability discussed above that the county offices agreed to address, nothing came to our attention to indicate that CDSS' oversight and control over the electronic transfer of SNAP benefits in California was not adequate.

Accordingly, this report presents no findings or recommendations, and no further action is required by your office.

We appreciate the courtesies and cooperation extended to us by members of your staff during our review.

# *Exhibit A – Sites Visited*

<b>SITE</b>	<b>Location</b>
FOOD AND NUTRITION SERVICE WESTERN REGIONAL OFFICE FNS Los Angeles Field Office	San Francisco, CA Los Angeles, CA
STATE OF CALIFORNIA DEPARTMENT OF SOCIAL SERVICES	Sacramento, CA
CALIFORNIA OFFICE OF SYSTEMS INTEGRATION	Sacramento, CA
COUNTY OFFICES: Alameda County Social Services Agency County of Los Angeles Department of Public Social Services South Family District (#31) Metro Special District (#70)	Oakland, CA Los Angeles, CA Los Angeles, CA Los Angeles, CA

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