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November 1996

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Key Points of Report

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Overall Conclusion

The Electronic Benefits Transfer (EBT) system is effectively providing government benefits to recipients of food stamps and Aid to Families with Dependent Children (AFDC). However, there are opportunities to improve controls to ensure retailers are provided with correct information, access is properly restricted, automated program changes are authorized, disruptions to the system do not occur, and cards and personal identification numbers are replaced in accordance with contract requirements.

Key Facts, Findings, and Recommendations

- To ensure benefits are properly distributed for this \$2.2 billion (1995) program, controls should be improved by clearly defining rules and procedures in all retailer training materials and by further restricting access to the Department of Human Services' (Department) eligibility determination system and the client database. Controls should also be strengthened by improving processes to authorize and monitor EBT software modifications, communicating EBT contingency plan requirements to local offices, and developing a contingency plan for the Department's main computer.
- A potential \$48,900 could be saved each year in Region 6 (Houston) by having the vendor replace lost, stolen, damaged, or defective cards as specified in the EBT contract. Cost savings could be realized by other regions currently following the same practices.
- Although the Department is satisfying federal requirements to ensure the food stamp portion of the EBT system is cost neutral, we were unable to evaluate the overall cost effectiveness of the EBT system during this review. Factors which prevented us from determining the system's cost effectiveness include the brevity of its statewide use and the numerous components that contribute to cost effectiveness.
- Effective January 1, 1999, federal government payments other than tax refunds will be required to be made electronically. State agencies analyzing the use of the current statewide EBT system to support their payment systems are identifying obstacles with the limited data capacity of the magnetic stripe on the current EBT card. Other options are being evaluated.

Contact

Tom E. Valentine, Audit Manager (512) 479-4700



Office of the State Auditor

Lawrence F. Alwin, CPA

This audit was conducted in accordance with Government Code, Section 321.0133.

Issues and Recommendations

Section 1:

Strengthen EBT Controls

Controls within the Texas “Lone Star” Electronic Benefit Transfer (EBT) system are generally effective in ensuring benefits are provided to recipients of food stamps and Aid to Families with Dependent Children (AFDC). However, there are opportunities to improve controls to ensure that retailers have correct information, access is properly restricted, and disruptions to the system do not occur. Client benefits are substantial, exceeding \$2.2 billion (state and federal funds) for food stamp and AFDC benefits in Texas during fiscal year 1995.

Overall, controls designed to ensure clients receive authorized benefits appear to be functioning as intended. These controls include:

- Procedures used to input, process, and reconcile EBT transactions
- Procedures for ensuring recipients receive adequate training on the system
- Physical and logical security controls at the Department of Human Services (Department) central office, Department regional offices, and the EBT vendor (Transactive Corporation)
- Procedures used for modifying automated programs at the Department and Transactive
- Procedures used by the Department, Transactive, and the retailers for minimizing breaks in service by program recipients
- Techniques being pursued by the Department, Transactive, and the U.S. Department of Agriculture in reducing fraud related to EBT

However, the five following opportunities to improve controls were found:

- Clarify information in retailer materials
- Improve access controls
- Improve software change controls
- Comply with 1996 Contingency Plan Requirements
- Resolve card and personal identification numbers (PIN) replacement practices

The Lone Star EBT system delivers food stamp and AFDC benefits to recipients electronically. To buy food from authorized retailers or to obtain cash from their AFDC accounts, each client receives a “Lone Star Card” (similar to a bank debit card) and is assigned a PIN. Clients run their cards through point-of-sale terminals, enter their PIN, and the purchase or cash benefit amount is deducted from the client’s electronic account. As of August 1996, the Lone Star EBT system was serving over 2.3 million benefit recipients through a network of 14,000 Texas retailers.

The Department awarded Transactive Corporation a contract to implement Texas’ EBT system for food stamps and AFDC in February 1994. The system was operating statewide in November 1995.

Section 1-A:

Clarify Information in Retailer Materials

The procedures to follow when the EBT system is inoperable are unclear, inconsistent, and are not included in all of the appropriate reference materials. Of 20 retailers randomly selected and interviewed in Region 6 (Houston) and Region 7 (Austin), 90 percent were unaware, confused, or misinformed about the relevant procedures. Twenty percent of those retailers stated that they turn clients away when the system is unavailable.

Issues and Recommendations

Retail stores have two alternative methods for allowing clients to purchase food if the EBT system is inaccessible. Manual vouchers can be issued up to \$50 with verbal authorization from the Retailer Help Desk. Floor limit vouchers up to \$25 can be issued without authorization, if the Retailer Help Desk is inaccessible.

Transactive has not yet fully clarified the procedures for processing transactions when the retailer is unable to contact the Help Desk. Transactive realized that the procedures had not been clearly explained in the reference materials and that its own staff had made erroneous interpretations of the procedures when a partial break in service occurred on December 14, 1995. Transactive attempted to clarify the procedures by mailing all retailers a clarification letter on June 17, 1996. However, the letter did not adequately explain what a retailer should do if that retailer is unable to contact the Help Desk.

In addition, Transactive has not developed retailer audit guidelines to ensure compliance with the requirements and standards in Transactive's *Lone Star Operating Rules*. According to the *Lone Star Operating Rules*, audits are to be conducted at least once a year by the retailer's internal auditing staff or other appropriate personnel. A letter of compliance is to be filed annually with Transactive by each retailer.

Recommendations:

We recommend placing clearly defined rules and procedures for the use of manual vouchers and floor limits in all retailer training materials. At a minimum, this information should be included in all reference material provided to retailers, and retailers should be notified of the updates. In addition, we recommend that the purpose and procedures of the annual retailer audits be evaluated. If the audits are of value to the overall EBT control

structure, procedures should be defined and documented, and the audits should be conducted as required.

Management's Response:

Background - Manual vouchers account for less than .33% of EBT transactions. Over 141 million EBT transactions have been processed.

The network of food stamp retailers participating in the Lone Star EBT program is made up of two primary groups. The first group are retailers equipped with point-of-sale (POS) devices that are supplied and maintained by Transactive Corporation. These POS devices are commonly referred to as "state-supplied" equipment. Only EBT transactions can be processed on these POS devices. The second group are those retailer chains that have installed their own POS devices for credit/debit transactions, which now also process EBT transactions. These POS devices are referred to as third-party processors, or 3PP's.

The EBT Lone Star Operating Rules only require retailers to process food stamp transactions via manual vouchers "when they have immediate access to a telephone and Transactive's Retailer Help Desk is operational and accessible by the retailer."

Manual Vouchers - The rules and procedures for processing manual vouchers are clearly defined in both the Texas EBT Lone Star Retailer Manual and the Lone Star Third-party Processor Manual Voucher Guide. The rules and procedures for processing floor limit [\$25 per card/per day, when Transactive's Retailer Help Desk is inaccessible] manual

Issues and Recommendations

vouchers will be included in update to the above documents. Using the TDHS rule change process, modifications are being made to the manual voucher rules and procedures. These modifications include removing the \$50 cap and extending the period for voucher submission from seven to fourteen days. These modifications should take effect by February 1997. In addition, an automated process to authorize manual vouchers is expected to be in place at the same time. This should minimize the need for floor limit vouchers. Both the Texas EBT Lone Star Retailer Manual and the Lone Star Third-party Processor Manual Voucher Guide will be revised to include the above modifications and the SAO recommendation.

Retailer Audits - *Since there are no federal, state or contract requirements for retailer audits, TDHS will work with Transactive to evaluate their purpose. If these audits are retained, then procedures will be defined for retailers and third-party processors to use in conducting the audits.*

Section 1-B:

Improve Access Controls

Access to the Department's automated eligibility system Generic WorkSheet (GWS); client database System for Application, Verification, Eligibility, Referral and Reporting (SAVERR); and the EBT administrative terminals may not be adequately restricted. Procedures exist for assigning access but deviations from these procedures have not been documented. Therefore, it could not be determined if current access assignments were appropriate. Without adequate restriction of access, fraudulent client accounts could be set up and Department employees could redeem benefits from those accounts.

- At least 22 Department staff members in Region 6 (Houston) and Region 7 (Austin) were identified as having access to both GWS and the EBT administrative terminals. These staff members have the ability to set up case information and then use the administrative terminal to issue and assign EBT cards and PINs to that case for benefit redemption.
- Our review also noted at least 99 Department staff members in Region 6 and Region 7 with update access to GWS and data entry access to SAVERR. All of these persons may not require this access to perform their job functions.

In addition, the EBT administrative terminals are not adequately monitored to ensure that only authorized staff members are linking cards and PINs to client cases and issuing priority benefits. We noted the following problems with monitoring of the EBT administrative terminals:

- Our review indicated that the system-generated administrative terminal access report did not properly reflect the authorized staff at 8 of 14 local offices in Region 6 (Houston) and Region 7 (Austin).
- The regional security officers are not required to, and do not, periodically review the EBT administrative terminal access information for obsolete users, invalid access attempts, or unusual activity.
- Although required by the EBT contract, Transactive does not provide detailed EBT administrative terminal access reports to identify the defined users, invalid access attempts, and unusual transaction activity.

Issues and Recommendations

Recommendations:

We recommend the Department restrict access to the EBT administrative terminals and the GWS and SAVERR systems. Access should be provided only to those who specifically need that access to conduct their work. Justification for dual access should be documented and reviewed periodically to ensure additional access is provided only when it is necessary for job performance.

Additionally, we recommend the Department take steps to ensure Transactive submits the EBT administrative terminal access reports as specified in EBT contract requirement number 58.

Management's Response:

Background - This area was also covered by TDHS Internal Audit, and the SAO recommendations are consistent with those of the internal audit.

Restrict Access - TDHS agrees that restricted access to GWS, SAVERR, and the EBT ATs is essential to deter fraudulent activity. Current TDHS policy and procedures provide for restricted access and clearly define segregation of duties. In addition, an audit trail by an individual's social security and password exists for all eligibility determination functions and AT activities performed. Staff are designated with appropriate access as described in the Income Assistance Handbook sections referring to the EBT Policies and Procedures.

Each region is responsible for writing and submitting a regional security plan including specific designated access and responsibilities for individuals. Each plan is reviewed by the state security and accountability officer. Yearly updates of regional security plans are a minimum requirement. In some

circumstances such as limited staff at a small local office, an overlap of duties and responsibilities will exist by necessity. In these instances, additional security procedures are incorporated to ensure adequate oversight and accountability. The TDHS EBT Contract Management Unit will coordinate with TDHS Regional Operations to ensure that local office policy and procedures on this issue are current and available, and that any deviations will be documented.

AT Access Reports - In September 1996, changes to the EBT vendor's system were implemented to provide detailed EBT administrative terminal access listings. Currently, AT reconciliation reports are provided to each local office to ensure accountability of all actions performed on a daily basis. In addition, a Software Action Request is being executed to improve the existing EBT security access software.

Section 1-C:

Improve Software Change Controls

Current procedures used by Transactive for program modification should be improved. The procedures outlined by the EBT contract provide for adequate controls, but these procedures are not consistently followed. The lack of adherence to program modification procedures could result in the implementation of unapproved or inadequately tested changes which could interfere with client benefit receipt.

Transactive is not using the Request for System Services (RFSS) software to request and track EBT software changes as required by EBT contract requirement number 18. Transactive staff members have stated that they do intend to eventually use the RFSS software per contract requirements; however, RFSS has not been installed and the staff has not been trained on how to use it.

Issues and Recommendations

Software changes can be made in response to a problem or an enhancement request. The change control process should include the following:

- Documentation of change requests
- Management approval of change requests
- Programmer testing and documentation
- Quality assurance testing and documentation
- User testing and documentation
- Change notification
- Change implementation
- Post implementation review

Programmer, quality assurance, and user testing responsibilities should be segregated to ensure the integrity of the change process.

Although the System Action Request (SAR) software is currently being used and performs functions similar to RFSS, SAR does not track all of the documentation generated for software changes.

There is also a risk that software changes may not be implemented, adequately tested by Transactive, or approved by the Department.

- We reviewed all change documentation from January 1, 1996, through May 15, 1996, and were unable to determine the status of change requests.
- Change requests could not be traced to supporting test and quality assurance documentation.
- Department approval was documented on only one change request.
- The Department is not consistently being notified 30 days in advance of software changes as required by EBT contract requirement number 18.

- Transactive's software change control and quality assurance procedures have not been documented.
- Quality assurance test documents are not initialed or signed by Transactive's quality assurance specialist to indicate successful testing of software changes.

Recommendations:

We recommend that unique identifiers or tracking numbers be included on change documents to trace changes and help ensure changes are completed. Department approval should be documented for all software changes as specified in Transactive's Change Management Plan. Transactive should notify the Department in advance of possible software changes as specified in the binding response to contract requirement number 18.

Transactive, in conjunction with the Department, should document procedures for software change controls and quality assurance. All quality assurance test documents should be initialed or signed by the quality assurance specialist.

Management's Response:

Background - Since December 1994, TDHS has been very assertive in its requests that Transactive hire an individual whose primary job function was to handle quality assurance. An individual was hired to fill that role at the beginning of July 1996. On October 24, 1996, TDHS was informally notified that such individual no longer works for Transactive. No word has been received regarding a replacement.

Issues and Recommendations

***Change Management** - TDHS agrees that strong software management controls need to be in place in order to have a quality EBT operating system. At TDHS's insistence, a quality assurance specialist was hired by Transactive last July. At the present time, software changes are being coordinated by a change management board and require documented TDHS approval. It is expected that the quality assurance specialist will establish necessary procedures to assure that change management controls are in place and are routinely reviewed. TDHS will work with Transactive to assure that those procedures include SAO recommendations such as tracking controls, documentation of TDHS approval, quality assurance sign-off on test documents, and appropriate advance notification of possible software changes.*

While TDHS would expect that documentation of revised procedures for software change controls and quality assurance would be in place no later than January 1997, it will be contingent on when the replacement for the above referenced quality assurance specialist position at Transactive can complete this task.

Section 1-D:

Comply With 1996 Contingency Plan Requirements

The Department has not successfully disseminated the Texas EBT System Contingency Plan (which identifies procedures for Department main and local offices to follow if there is a system problem or disaster that disrupts EBT accessibility) and enforced it at the local office level. Department local offices may be unable or unprepared to serve clients or issue priority benefits in a timely manner due to the lack of adequate contingency plans.

We noted the following problems related to contingency planning:

- Thirteen of the 14 Department local offices reviewed in Region 6 (Houston) and Region 7 (Austin) were not in compliance with the 1996 Texas EBT System Contingency Plan requirements. The Region 6 (Houston) Security Coordinator stated that she had not received or distributed the 1996 Contingency Plan requirements to the local offices in her region.
- Twelve of the 14 local offices did not have adequate alternate procedures for assigning and issuing cards and PINs to cases when the EBT administrative terminals were unavailable.
- Two of the Department local offices had not completed a documented business resumption plan.

In addition to the local office contingency plans, the Department currently does not have a contract or other arrangements for business resumption services in the event of a disaster at the Winters Complex (Department headquarters). If a disaster were to occur, the Department's main office would not be able to account for authorized benefits for food stamp and AFDC recipients. The EBT administrative terminal can be used to provide these services; however, the automated eligibility system and the client database verification controls would be bypassed. This could increase the potential for fraud.

Recommendations:

We recommend a formal process be designed and documented for the distribution of the contingency requirements to all local offices if the plan is updated or revised.

Issues and Recommendations

We also recommend that the Department determine its contingency requirements and seek backup services with the West Texas Disaster Recovery Center (Center) as specified in the General Appropriations Act Article IX, Section 40. If service requirements cannot be adequately provided by the Center or if the Center is not a cost-effective alternative, the Department should explore other options to comply with the Department of Information Resources' Information Security Standards (First Texas Administrative Code, Article 201.13, Section B).

Management's Response:

EBT System Contingency Plan - As part of internal change and risk management, TDHS EBT Contract Management Unit will coordinate with TDHS Regional Operations to develop a formal process for the distribution of the EBT contingency requirements, and also the documentation thereof.

TDHS Winters Complex Contingency Plan - TDHS agrees with the intent of the recommendation. Mainframe and communications (network) contingencies are being addressed in support of this effort. TDHS has been actively examining disaster recovery options suitable for our business resumption needs and our Unisys mainframe environment. These options have included recovery services available from state and federal sources including the Department of Information Services, private vendors, and establishing our own hotsite capability. An RFI, and a Technical Specifications document, were released in September 1996 to solicit interest and bids leading to creation of a hotsite capability during FY97. TDHS operates separate Production and Development computers; our intention would be to move the Development platform to an alternate location. This computer would continue to be used for development work

under normal circumstances and would be dedicated to support Production needs in a disaster situation. Responses have now been received and staff have begun the evaluation process. It is anticipated that the evaluation will be completed by January 1997. TDHS cautions that the ability to implement a recovery capability depends on technical as well as budgetary parameters. Even if our evaluation identifies a technically feasible solution, we may not be able to proceed if the solution exceeds our budgetary limits. Assuming a successful contract award, the location of the hotsite also has implications on communications. For example, the monthly expense of data circuits from Austin to the West Texas Disaster Recovery Center is nearly four times the cost of similar circuits to a site located within the Austin Local Access Transport Area (LATA).

Section 1-E:

Resolve Card and PIN Replacement Practices

Although the EBT training materials state that Transactive's Help Desk will replace lost, stolen, damaged, or defective cards, the Help Desk refers clients to Department local offices for card and PIN replacements. During the month of May 1996 a total of 1,059 cards and PINs were replaced by the Department's local offices in Region 6 (Houston).

If Transactive, rather than the Department, replaced these cards and PINs, a potential \$48,900 could be saved each year by Region 6. According to Department regional operations staff, it is estimated that reissuance of cards and PINs takes between 30 to 45 minutes and is performed in part by both a Clerk III and Worker II. Cost savings could be realized by the other ten regions as well.

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Recommendation:

We recommend that the Department resolve the differences between current card and PIN replacement practices and the EBT contract procedures. It may be beneficial for the Department to evaluate the cost benefit of providing the replacements versus general customer satisfaction. If the Department determines that Transactive's Help Desk should continue to replace cards and PINs, Transactive should properly train all Help Desk personnel in the appropriate card and PIN replacement procedures.

Management's Response:

Background - *The statement that the Transactive Help Desk refers clients to local offices for card and PIN replacements requires a clarification response. When a client contacts the Transactive Help Desk and requests a replacement, if the information given by the client to the Transactive Help Desk associate does not match the data on the client screen (a different address, for example), then it is proper procedure for that associate to refer the client to the local office to execute the change. At that time the necessary replacement is performed, as a client convenience.*

While TDHS has a waiver from the federal government to charge clients for replacement cards and PINs, it is only with the recent federal welfare reform legislation that the cost of doing so can be charged to the client's EBT account. The outcome of proposed federal regulations (requiring changes such as embossing the cardholder's name on the card) for EBT magnetic stripe cards will also influence our decision regarding card and PIN replacements. The process for charging for such replacements will require federal and TDHS Board approval.

Card and PIN Replacements - *TDHS has been reviewing its options for card and PIN replacements, and agrees with the SAO's recommendation that a cost benefit study is in order. In an effort to provide maximum client convenience during EBT implementation and early operations, TDHS and Transactive have accepted local office card and PIN replacements. TDHS has already had discussions with Transactive on this issue, and it is expected that a decision will be negotiated in early 1997.*

Section 2:

Cost Effectiveness of the EBT System

Although the Department is satisfying federal requirements to ensure the food stamp portion of the EBT system is cost neutral, we were unable to evaluate the overall cost effectiveness of the EBT system during this review. Factors which prevented us from determining the system's cost effectiveness include the brevity of its statewide use and the numerous components that contribute to cost effectiveness. However, we did review significant cost effectiveness factors including:

- Regulation E
- Food stamp issuance expenditures, including cost neutrality
- Fluctuations in recipient participation
- Other programs being considered for EBT

Section 2-A:

Regulation E No Longer Threatens to Make EBT Cost Prohibitive

Regulation E is a banking regulation of the Electronic Funds Transfer Act that the Federal Reserve Board intended to apply to state electronic benefit transfer (EBT) programs beginning March 1997. Regulation E would have mandated that states and localities

Issues and Recommendations

replace all but \$50 of lost or stolen social service benefits distributed by EBT. The replacement costs mandated by Regulation E would have made the system cost prohibitive to states.

However, Regulation E no longer threatens to make EBT cost prohibitive. The Welfare Reform Bill signed on August 22, 1996, repealed the liability portion of Regulation E related to government electronic benefit programs.

Section 2-B:

Administrative Issuance Expenditures for the Food Stamp Program Have Not Decreased

Administrative issuance expenditures for the food stamp program have not decreased with the statewide implementation of EBT. According to reports prepared by the Department for the U.S. Department of Agriculture (USDA), during the six-month period of October 1993 to March 1994 issuance expenditures for the Food Stamp program totaled \$12 million; in the six-month period of October 1995 to March 1996 issuance expenditures totaled \$15 million.

Federal law requires that the EBT system for food stamps cost no more than its predecessor, the coupon system. The Department's cost neutrality analysis was prepared with guidance previously approved by the Federal Government for development of the program cost cap. The original cost neutrality analysis was accepted by USDA and the Food and Nutrition Service Division.

The State and USDA split most of the administration costs on a 50/50 basis to operate the food stamp program. Recipient benefits are paid 100 percent by USDA.

Section 2-C:

Texas Has Experienced a Decline in Food Stamp and AFDC Recipients

Texas has experienced a decline in food stamp and AFDC recipients.

Comparison of Food Stamp Administrative Issuance Costs			
	October 1993 - March 1994	October 1995 - March 1996	Difference
Administrative Issuance Costs	\$12,208,302	\$15,993,998	\$3,785,696

Although issuance costs have increased, the federal cost neutrality requirements for food stamps are being met,¹ according to a recent annual analysis prepared by the Department.

¹Issuance is only one of several cost components used to determine cost neutrality. Increasing issuance costs will not prevent the agency from meeting the federal cost neutrality requirement.

- The average number of food stamp recipients declined in the three-month period compared in fiscal year 1994 (the last year the coupon system was used statewide) and fiscal year 1996 (the first year the EBT system was used statewide), from 2,821,654 to 2,504,420 respectively.

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- A decline was also noted in the average number of AFDC recipients, from 784,929 recipients in the three-month period compared in fiscal year 1994 to 698,866 recipients in fiscal year 1996.
- Applicant denials increased during the periods reviewed for both food stamps and AFDC, meaning fewer individuals were eligible for food stamp and AFDC benefits. The largest percentage of denials for both programs was due to the lack of action on the part of the applicants.

Section 2-D:

Issue for Further Study

As of January 1, 1999, all federal government payments other than tax refunds are required to be made electronically. The *Balanced Budget Downpayment Act of 1996*, signed into law on April 26, 1996, applies to government employees and retirees, vendors and contractors, and beneficiaries of social security and other government programs.

The Federal Government supports direct deposit as the first choice for federal payments, with EBT intended for recipients without bank accounts. Under the planned implementation of a national EBT system for federal payments, recipients without bank accounts will receive all benefit payments under a single access card.

Although the Texas Department of Human Services has fully implemented a statewide EBT program using the magnetic stripe card, other agencies currently analyzing its use are identifying obstacles with the limited data

capacity of the magnetic stripe. Several options are currently being examined, including the possibility of the smart card (containing a microprocessor chip) or a hybrid card which contains both the magnetic stripe and the microprocessor chip.

Coordinating the efforts of various agencies could be to the advantage of the State given requirements facing the State related to the *Balanced Budget Downpayment Act of 1996*, the number of agencies impacted, and associated automation requirements.

Under the coordination of the Comptroller of Public Accounts, an EBT Taskforce has been formed to develop an EBT Strategic Plan for the State of Texas and address the issues facing Texas as a result of the *Balanced Budget Downpayment Act of 1996*. The Taskforce is currently working with the following agencies:

- Texas Department of Health on the Special Supplemental Food Program for Women, Infants, and Children (WIC)
 - Texas Workforce Commission (TWC) on cash disbursements for transportation allowance under the Job Opportunities and Basic Skills (JOBS) and Food Stamp Employment and Training programs
- TWC plans on working on the smaller program components before unemployment benefits are considered for EBT
- Office of the Attorney General on electronic payments for child support

Appendices

Appendix 1:

Objectives, Scope, and Methodology

Objectives

The audit objectives were:

- Examine internal controls over the EBT system to ensure that the risk of fraud and abuse is reduced.
- Identify potential cost effectiveness factors related to the Electronic Benefit Transfer system.
- Examine the contract with the vendor and its associated controls to ensure that the State of Texas is receiving the services for which it has contracted.

Scope

The scope of this audit included the evaluation of EBT controls related to the automated systems at the Department and the contracted vendor, and the identification of potential cost savings associated with EBT.

In order to prevent a duplication of effort, we did not review the EBT contract monitoring processes. These were reviewed by the Department's Internal Audit Department and results were included in the Department's Internal Audit Report 96-019.

Although we did not perform a review of the contract monitoring processes, our review identified opportunities for improvement in the monitoring area. This is indicated throughout Section 1 of this report, as well as in the Department's Internal Audit report 96-019.

Methodology

The methodology used on this audit consisted of gaining an understanding of the EBT information system, collecting information, reviewing documents, performing data analysis, and reviewing EBT policies and procedures at both the Department and the EBT vendor. Tests were performed to determine if the control systems were operating as described. Results were evaluated against established criteria to determine system adequacy and identify opportunities for improvement.

Evidence was gathered primarily through interviews with Department and Transactive personnel, documentation review, financial analyses, and observation of adherence to policies and procedures. The review of the EBT system was performed by comparing described and actual processes, and compliance testing at selected Department local field offices.

The following criteria were used to evaluate the EBT control system:

- Statutory requirements
- Federal regulations
- EBT contract
- State Auditor's Office *Project Manual System: The Methodology*
- Other standards and criteria obtained through secondary research sources both prior to and during fieldwork

Other Information

Fieldwork was conducted from March 1996 through August 1996. The audit was conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards

Appendices

- Generally Accepted Auditing Standards

There were no significant instances of noncompliance with these standards.

This audit was performed by the following members of the State Auditor's Office:

- Patricia Perry-Williams, CISA (Project Manager)
- Becky Becker

- Jeff Graham, MBA
- Angela Rodin, CISA
- Beverly Wood, CPA
- Barbara Hankins, CPA (Audit Manager)
- Tom E. Valentine (Audit Manager)
- Deborah L. Kerr, Ph.D. (Audit Director)

Appendices

Appendix 2:

Background on the Lone Star EBT Card

In 1990, Congress passed a law allowing the use of electronic funds transfer in the dispensing of food stamp benefits, provided the new system was cost neutral. The Department received federal approval to begin planning for the implementation of the Lone Star EBT system in April 1992. The Department issued a request for proposal (RFP) in March 1993 for the EBT system. However, since the responses to this proposal included costs that were unacceptable to the State, the proposal was canceled. A revised RFP was distributed in December 1993 and five responses were received. GTASCO, a subsidiary of the GTECH Corporation, was selected as the EBT vendor and a formal contract was signed on February 10, 1994, with a contract effective date of March 1, 1994. In April 1994, GTASCO changed its name to Transactive Corporation.

Through the EBT contract, the Department is purchasing EBT services, not an automated system. The EBT contract is not for the development of an automated system, but rather the contract requires Transactive Corporation to provide EBT services to the Department for a specified fee based upon client caseloads. Transactive provides the services, software, hardware, equipment, and related items required to implement and operate the EBT system.

Implementation of the EBT system was piloted in Harris and Chambers counties in September 1994. Approximately 16,000 food stamp

households and 4,500 Aid to Families with Dependent Children (AFDC) households were involved in this effort. Statewide implementation of the system commenced in February 1995 and was completed in November 1995. Nearly 1 million food stamp households and 250,000 AFDC households were converted to the new system during this time period.

The EBT system issues and redeems benefits through the use of an electronic funds transfer (EFT) network and point-of-sale (POS) technology. In the food stamp program, a recipient's monthly benefits are electronically posted to a computer file (which functions like a ledger account containing data on benefit availability) and the recipient is issued an EBT access card. To buy groceries, the recipient uses the card and a unique personal identification number (PIN) at the POS terminals located at the check-out counter to obtain authorization from the EBT computer system. If the purchase is approved, the dollar value of the purchase is debited from the recipient's benefit balance and credited to the appropriate retailer.

The AFDC program works in a similar manner, but the recipient is not required to make a purchase. The recipient may receive cash from the debit transaction through a POS terminal located at either the check-out lane or customer service window. At the end of each business day, the merchant's authorized EBT sales for both food stamps and AFDC are totaled and an electronic funds transfer results in a deposit to the merchant's bank account.