U.S. Department of Agriculture

Office of Inspector General
Southwest Region

Audit Report

Food and Nutrition Service
Continued Monitoring of
EBT System Development
State of New Mexico

Report No. 27099-18-Te
March 2004

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Southwest Region - Audit
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DATE: March 18, 2004

REPLY TO
ATTN OF: 27099-18-Te

SUBJECT: Continued Monitoring of EBT System Development – State of New Mexico

TO: William Ludwig, Regional Administrator
Food and Nutrition Service
Dallas, TX

ATTN: Judy Barron, Regional Director
Food Stamp Program

This report presents the results of our audit of New Mexico EBT System Development. Your response to the official draft report, dated February 27, 2004, is included in its entirety as exhibit C with excerpts and the Office of Inspector General's (OIG) position incorporated into the Findings and Recommendations section of the report.

Based on the response, management decisions have not been reached for the recommendations in the audit report. It should be noted that the second part of Recommendation 8 (part 8(b)), was withdrawn after further discussions with FNS management. The information needed to reach management decisions is set forth in the OIG Position section after each recommendation. In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned and the timeframes for implementation for those recommendations for which a management decision has not yet been reached. Please note that the regulation requires a management decision to be reached for all recommendations within a maximum of 6 months from the date of report issuance. Final action on the management decisions should be completed within 1 year of the date of the management decisions to preclude being listed in the Department's annual Performance and Accountability Report.

We appreciate the courtesies and cooperation extended to us by members of your staff during the audit. If you have any questions, please contact me at 254-743-6565, or have a member of your staff contact Billy Engelke, Assistant Regional Inspector General, at 254-743-6570.

/S/TRM
TIMOTHY R. MILLIKEN
Regional Inspector General
for Audit

Executive Summary

Food and Nutrition Service – Continued Monitoring of EBT System Development – State of New Mexico (Report No. 27099-18-Te)

Results in Brief

The Electronic Benefits Transfer (EBT) system represents a more effective method for delivery of Food Stamp Program (FSP) benefits to clients than the food stamp coupons. We reviewed the New Mexico EBT System as part of our ongoing effort to monitor the established EBT systems nationwide. The overall objectives were to assess the established controls over the EBT system and determine whether the controls were functioning as designed.

The New Mexico Human Services Department (the State) did not have adequate internal controls over its EBT operation. We found that:

- FSP benefit authorizations valued at $555,521, for which an EBT account had not been established, were not removed from the EBT system.
- EBT service fees were overpaid by $191,107, of which 50 percent, or $95,553, needs to be recovered.
- EBT system access had deficiencies such as access conflicts and multiple user identifications (ID).
- The State did not have adequate policies or procedures for routine oversight of EBT system activity, including reviewing management reports, ensuring reconciliations were performed daily, and resolving EBT Help Desk complaints.
- Internal audits of EBT operations were not performed, and single audit findings were not resolved.

We also found that the Food and Nutrition Service (FNS) needs to improve its oversight of States that are not considered low risk. In addition, FNS needs to make a $465,131 adjustment to the State Automated Standard Application for Payments balance, due to an error in the account setup.

The State had initiated a reorganization of the EBT operation before our audit began, and it is still in progress. After our onsite fieldwork, the State began actions to correct deficiencies that were noted. (The specific actions are outlined in Findings Nos. 1 through 5.)

Recommendations In Brief

We made several recommendations for FNS to direct the State to establish and modify internal controls. We recommend written controls to ensure that (1) FSP benefit authorizations are removed from the EBT system when not posted timely, including $555,521 noted during our field visit, (2) EBT service fee invoices use the rates approved in the service agreement and recover $95,553 in overpayments, (3) software changes are made to correct EBT system access conflicts, (4) adequate policies are implemented for daily EBT operations and routine oversight of the EBT system, and (5) internal audits are performed. We also recommend that FNS adjust its oversight procedures and conduct a followup review of the State EBT operations in fiscal year (FY) 2004. Further, we recommend FNS ensure that the State's Automated Standard Application for Payments balance is adjusted by $465,131.

Agency Response

In a letter dated February 27, 2004, FNS generally concurred with the majority of the findings and recommendations. (See exhibit C.) FNS did not concur with portions of recommendations 7 and 10 concerning manual vouchers and A-133 audit report reviews at appropriate FNS management levels.

OIG Position

We are unable to reach management decision on any of the recommendations. The conditions needed to reach management decision are set forth in the findings and recommendations section of the report.

Abbreviations Used in This Report

the Act	The Food Stamp Act of 1977
ASAP	Automated Standard Application for Payments
CAPS	Card Activation and PIN Selection System
CFR	Code of Federal Regulations
EBT	Electronic Benefits Transfer
FNS	Food and Nutrition Service
FNSRO	Food and Nutrition Service Regional Office
FSP	Food Stamp Program
FY	Fiscal Year
GLA	Group Living Arrangement
ID	Identification
ISD2	Integrated Services Delivery System
OIG	Office of Inspector General
OMB	Office of Management and Budget
the State	New Mexico Human Services Department
PIN	Personal Identification Number
POS	Point of Sale
the processor	Citicorp Services, Inc.
USDA	United States Department of Agriculture

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Background and Objectives

Background

The United States Department of Agriculture's (USDA) FNS administers the FSP through a joint Federal-State partnership. The Federal Government pays the full cost of client benefits and shares the cost to administer the FSP with the States. Congress funds the FSP through the direct appropriation of funds. Through this joint Federal-State partnership, FNS is pursuing EBT implementation by each State for the FSP nationwide.

The Food Stamp Act of 1977 (the Act), 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 EBT system. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Public Law 104-193, required all States to implement EBT systems before October 1, 2002.

The FSP assists low-income households by increasing their ability to purchase food. Once a month, each participating household receives a benefit allotment determined by the number of individuals in the family, household income, and other related factors. The FSP clients use the benefits to pay for food items at approved participating food retailers.

Before EBT, the basic method of FSP benefit delivery was the food stamp coupon. EBT was developed to replace paper coupons with a computerized version of the food benefit delivery process. Using plastic cards, much like debit cards, along with a personal identification number (PIN), clients gain access to their benefits through point-of-sale (POS) terminals located at approved food retailers. The retailers are reimbursed for food purchased by the client.

In FY 2002, FSP benefits were approximately $18 billion and increased to approximately $21 billion for FY 2003. FSP benefits issued through EBT totaled approximately $15 billion in FY 2002.

The FNS National Office is responsible for establishing overall program regulations; EBT policy; approval of State EBT systems; and coordinating with Federal, State, commercial, and private-interest groups. A national office FSP account executive is assigned to work with each State. FNS' policy allows States the flexibility to establish controls that meet the needs of the State; however, the State remains financially liable to the Federal Government for actions of its EBT processor. FNS has established approval rules for the delivery of FSP benefits using EBT systems in

Title 7, Code of Federal Regulations (CFR), section 274.12, and for approving automated data processing systems in Title 7, CFR, section 277.18. FNS Regional Offices (FNSRO) serve as liaisons between the States and the FNS National Office.

The State administers the EBT system and administers the service agreement with Citicorp Services, Inc. (the processor), to operate the EBT system. The service agreement was effective April 27, 1998, and can be renewed until 2006. The current service agreement expires on April 16, 2004.

Objectives

The objectives of our audit were to provide an evaluation of the adequacy of established controls and an assessment on whether controls functioned as designed.

Findings and Recommendations

Section 1. State Internal Controls Need Improvement

Our review of the State EBT operations disclosed several conditions that were not in accordance with Federal regulations. These conditions occurred because the State did not have adequate internal controls for its EBT operations. As a result, there is an increased risk of errors and fraud in the State's EBT operations. In addition, we questioned State costs and accounting classifications of approximately $651,000.

Federal regulations require State agencies to be responsible for efficiently and effectively administering programs by complying with the provisions of the Act, the regulations issued pursuant to the Act, and the FNS-approved State plan of operation.[1]

The issues associated with each area we reviewed are outlined below in Findings Nos. 1 through 5.

Finding 1 Benefit Authorizations Not Posted

The State EBT processor's system contained FSP benefit authorizations from several previous years. If an EBT card is issued, the authorizations could be accessed. As a result, we questioned $555,521 of FSP authorizations that were stored on the EBT system.

The State sends clients' authorizations for food stamp benefits to the EBT processor each night. The processor also receives notification of EBT cards issued to clients each day. The processor posts authorizations to accounts for which EBT cards have been issued. The remaining authorizations are kept in a pending file on the EBT system. In addition to the daily authorizations, each month a file containing recurring authorizations for existing clients is sent to the processor. The recurring authorizations are posted to clients' accounts on the effective date, which is scheduled during the first 20 days of each month based on clients' identifier numbers.

We obtained the pending file report as it appeared in July 2003 during our onsite fieldwork. We noted that in addition to the recurring monthly

[1] Title 7, CFR, part 276, section 276.1(a)(4), dated January 1, 2003.

authorizations, the pending file also contained hundreds of authorizations dating back to January 1999. Excluding the recurring authorizations, the amount of authorizations in the file from January 1999 through June 2003 was $555,521.

During a review of the State's reconciliation process in June 2000, FNS noted that the State considers benefits issued when the client is authorized. As stated above, the processor does not post benefits until an EBT card is issued, which establishes the account on the EBT system and creates a liability. EBT cards were not issued because clients did not complete the necessary actions. FNS staff stated they had advised the State to purge the pending file in the past. We agree that the State should have purged the pending file and made any necessary adjustments to accounting records. We also believe that the pending file should not contain any benefit authorizations more than 60 days old, as this is a reasonable amount of time for clients to be issued a card.

We notified State officials of this condition in July 2003. In September 2003, State officials advised us that this subject was being discussed with the EBT processor.

Recommendation No. 1

Direct the State to determine which of the current authorizations needs to be removed and researched, including the $555,521 identified above, and make the appropriate accounting adjustments.

Agency Response. FNS concurs with the recommendation. The existence of a pending file on the Morgan Chase EBT system is a system design approved by FNS and in operation in more than one State. In this region, FNS has no knowledge of any fraudulent activity as a result of misuse of the pending file. Because of the State's EBT system design, there is no liability to the Federal Government until benefits are posted to and made available in the clients' accounts.

Because this will be a change in software, FNS is not sure of the time required to accomplish these changes. We understand that the State has just executed a 2-year contract extension with Morgan Chase that effectively extends the current contract through mid-April 2006. If it is determined that the programming changes requested under this recommendation are cost prohibitive (used for less than a 2-year period), FNS will approach OIG and ask for a reconsideration of this recommendation. This office will ensure that the replacement contract, effective mid-April 2006, will not have this design feature in it. By April 9, 2004, FNS will issue a letter, with a copy to OIG, so directing the State.

OIG Position. Even though the agency concurs with the recommendation, the main emphasis of the recommendation was not addressed. To reach management decision, we need documentation to show that the State has determined which of the current authorizations needs to be removed, including the $555,521 identified in this report, and that appropriate accounting adjustments have been made.

Recommendation No. 2

Direct the State to establish written internal controls to ensure that authorizations that do not have EBT cards issued are timely (for example, within 60 days) removed from the pending file and researched.

Agency Response. FNS concurs with the recommendation. The development of these written internal controls will be tied to the time lines for Recommendation No. 1. By April 9, 2004, FNS will issue a letter, with a copy to OIG, so directing the State.

OIG Position. The planned action for Recommendation No. 2 is not contingent on Recommendation No. 1. To reach management decision, we will need documentation showing that written internal controls have been established to ensure that authorizations that do not have EBT cards issued are timely removed from the pending file and researched.

Recommendation No. 3

Direct the State, in consultation with FNS, to analyze the authorization process and determine if authorizations need to be sent to the processor before an EBT card is issued to the client. If so, modify the process before the next EBT contract is finalized.

Agency Response. FNS concurs with the recommendation. Even with the latest and final 2-year extension on the State's contract, combined with the corrective actions under Recommendations Nos. 1 and 2, corrective actions for Recommendation No. 3 will be applicable to the replacement EBT contract only. It is not our intent to implement Recommendation No. 3 corrective actions on the current contract. By April 9, 2004, FNS will issue a letter, with a copy to OIG, so directing the State.

OIG Position. We agree with the planned action; however, to reach management decision, we will need a copy of the letter to the State.

Finding 2 Overpayment Of EBT Service Fees

The State approved EBT service invoices with rates per case[2] that exceeded those approved in the service agreement with the processor. As a result, the State overpaid the processor $191,107 for the period of January 2002 through May 2003.

We reviewed the processor's invoices for EBT services for FY 2003 and found that charges for rates per case were higher than the rates per case in the original service agreement and any amendments. For example, one of the original service agreement rates was $2.396 per case, while the rate used on the invoice was $2.535 per case.

Our review of invoices found that higher rates than specified in the service agreement were charged on invoices dating back to January 2002. We calculated the total amount overpaid by the State for EBT services for January 2002 through May 2003 as $191,107. The overpayments calculated include only FSP fees. The table below shows the overpayments made by the State.

FSP Overpayments	
Invoice Period	**Amount**
Jan – Sep 2002	$ 97,524
Oct – May 2003	93,583
Total Amount Overpaid	**$191,107**

The State was advised by OIG of the discrepancy in August 2003. State personnel were aware of the situation and had determined that the difference was the New Mexico gross receipts tax that the processor had added to each case. In September 2003, State personnel advised that they had discussed the issue with the processor and that the State's legal staff is determining whether the State can pursue recoupment of the expenses above the original contract price.

Although payment of the gross receipts tax is required by the State of New Mexico, we conclude the processor should have either processed an amendment to the service agreement for the State's approval or absorbed the gross receipts tax. The cost limitation article of the service agreement states that these amounts are inclusive of New Mexico gross receipts tax, which must be paid by the contractor. Thus, any excess costs included in the invoices from the processor should not have been paid. State funds were used to pay the service fees. The State generally requests 50 percent

[2] Service fees are based on the number of households receiving program benefits. The processor bills the State for each EBT case that is processed. The rate per case was stated in the original service agreement between the processor and the State.

reimbursement of administrative costs from FNS; therefore, $95,553 (50 percent of $191,107) needs to be recovered.

Recommendation No. 4

Take the necessary action to:
(a) bill the State for $95,553 (or the applicable amount) in overpaid FSP fees from January 2002 to May 2003, and determine if other amounts need to be recovered for invoices approved after May 2003; and
(b) establish written internal controls to ensure that future invoices comply with the approved fee schedule.

Agency Response.

4(a). FNS concurs with the recommendation. FNS will take the necessary action and bill the State for the applicable dollar amount.

4(b). FNS concurs with the recommendation. By April 9, 2004, FNS will issue a letter, with a copy to OIG, so directing the State.

OIG Position. We agree with the planned action; however, to reach management decision, we will need:
(a) documentation of the bill to the State for the applicable overpaid FSP fees and documentation showing that the amount has been collected or established as an account receivable, and
(b) a copy of the letter to the State and a proposed completion date of the directed action.

Finding 3 Controls Over EBT System Access Are Inadequate

We determined that the State EBT system had deficiencies such as access conflicts and multiple user IDs. As a result, the EBT system has an increased risk for EBT system access fraud.

Federal regulations require that the State agency shall ensure that EBT security requirements are established.[3] Federal regulations also state administrative and operational procedures shall ensure that functions affecting an account balance are separated or dually controlled during processing. These functions may include, but are not limited to, the setup of accounts, transmittal of funds to and from accounts, and access to files to change account records. Further, the regulations provide that the State agency must utilize passwords, identity codes, or other security procedures.[4]

[3] Title 7, CFR, part 274, section 274.12(i)(3), revised January 1, 2003.
[4] Title 7, CFR, part 274, section 274.12(i)(3)(iv)(A) and (B), revised January 1, 2003.

Access Conflicts

We found that some employees had the capability to access EBT systems that allow both the issuance of EBT benefits and EBT cards (access conflict).

Update-access to the State FSP eligibility system (Integrated Services Delivery System (ISD2)) is used to register a case before issuing the EBT cards. The ISD2 system also is used to issue benefits. The Card Activation and PIN Selection (CAPS) system is used to allow clients their PINs during issuance of the EBT cards. Thus, employees having access conflicts increase the risk of improper EBT benefits being issued.

Our analysis of the ISD2 system access capabilities for all CAPS users found that 105 of the 121 CAPS users (87 percent) had access conflicts in the ISD2 system.

State personnel told us that they were in the process of strengthening controls over the employees that have the capability to issue EBT cards and benefits. They further stated that a software change is needed to resolve the issue, and they will pursue the software enhancement. In the short term, each county office is being required to decrease the number of employees with update access to both systems to three. Even when this is completed, we determined that the number of employees with access conflicts would still be almost 100 (3 employees x 33 county offices), compared to 105.

Multiple User IDs

Multiple user IDs is another area of EBT system access vulnerable to fraud. Our review of active user files for June and July 2003 identified six multiple IDs in June and five in July. State personnel advised us that they had corrected the discrepancies since completion of our fieldwork and sent us their active user ID employee and CAPS user lists for September 2003. The State further advised that procedures for quarterly monitoring of continued need of EBT system access had been implemented. However, as of September 2003, there were still seven employees with multiple user IDs.

Recommendation No. 5

Direct the State to review all current EBT system users and correct any multiple user IDs and access conflicts (employees that can issue EBT cards should not be able to issue food stamp benefits) that exist. Strengthen controls to monitor employees with access conflicts until the issue is resolved.

Agency Response. FNS concurs with the recommendation. By April 9, 2004, FNS will issue a letter, with a copy to OIG, so directing the State.

OIG Position. We agree with the planned action; however, to reach management decision, we will need a copy of the letter to the State and a proposed completion date of the directed action.

Recommendation No. 6

Direct the State to:
(a) make the necessary software changes to eliminate access conflicts, and (b) establish control procedures to periodically monitor the list of EBT system users for multiple users IDs and incompatible access.

Agency Response.

6(a). FNS concurs with the recommendation. By April 9, 2004, FNS will issue a letter, with a copy to OIG, so directing the State.

6(b). FNS concurs with the recommendation. By April 9, 2004, FNS will issue a letter, with a copy to OIG, so directing the State.

OIG Position. We agree with the planned action; however, to reach management decision, we will need a copy of the letter to the State and a proposed completion date of the directed action.

Finding 4 Training, Written Procedures, And Monitoring Controls Needed

The State did not have adequate training, written procedures, and monitoring controls, or in some cases did not follow existing procedures for its EBT operations. The areas with discrepancies found during our review of the State and county office EBT operations are discussed below.

Help Desk

The State Help Desk personnel did not always follow Help Desk procedures. Help Desk personnel did not enter the circumstances for deactivating food stamp clients' EBT cards. In addition, there was no log maintained of EBT cards returned to the State office or of cards destroyed. We also found that the State staff did not have an adequate process for EBT Help Desk complaint resolution.

The State's internal procedures require Help Desk staff to enter the circumstances regarding requests to deactivate EBT cards. The internal procedures also require Help Desk staff to record the date a returned EBT card is received and destroyed. Also, Federal regulations require State agencies to follow up on complaints, resolve complaints and take action where warranted, and respond to the complainant on the disposition of the complaint.[5]

We reviewed Help Desk transactions for May and June 2003 for EBT cards that had been deactivated because they were either returned or reported lost or stolen. Our analysis showed, in at least 40 out of 345 transactions, or approximately 12 percent, State personnel did not follow procedures for deactivating EBT cards. Not all of the State Help Desk staff were aware of internal procedures for deactivating EBT cards.

In addition, the State office staff did not maintain a log of returned and destroyed EBT cards. We found that there was not an additional employee designated to either destroy or secure cards that could not be destroyed immediately in the absence of the designated employee.

We also found that there was no documentation available for resolution of EBT complaints. We reviewed EBT Help Desk complaints for April through June 2003. We found 30 of the 109 complaints (27 percent) had been open for more than 45 days after the complaint was recorded. In addition, 6 of the 30 complaints had been open for 60 to 100 days. The State does not have written policies that establish a timeframe for complaints to be resolved. Therefore, the State has no assurance that complaints are being resolved.

In September 2003, the State staff advised that each area would begin reviewing its operating procedures and making needed changes, as part of an effort to improve financial management. The officials also stated the complaint system, used by Help Desk personnel and the main office in Santa Fe, New Mexico, would be made available to all the county offices to aid in complaint resolution.

County Offices

The State did not provide appropriate guidance or monitor county office oversight of EBT activities at group living arrangement (GLA) facilities. In addition, in one of the two county offices visited, an excessive number of county office personnel had access to unissued EBT cards. As a result, the State did not have assurance that FSP benefits were safeguarded.

[5] Title 7, CFR, part 271, section 271.6(a)(2), revised January 1, 2003.

In addition to requiring State agencies to effectively administer programs, Federal regulations state that controls should ensure the security of unissued EBT cards.[6]

We visited 2 of the State's 33 county offices during our review. The county offices provide oversight of the GLA facilities. Drug and alcohol treatment rehabilitation and blind or disabled group homes are examples of GLA facilities. FSP clients may designate an authorized representative who uses the EBT cards to make food purchases on the clients' behalf. We visited two GLA facilities to review oversight. Our review showed that there were no written procedures provided to the authorized representative for handling EBT benefits. Instructions for using EBT benefits were provided through phone conversations. At one GLA facility, we found that several residents were aware that all EBT cards had the same PIN. Therefore, by having access to this PIN, these residents could make purchases on any of the clients' EBT cards. The county office staff did not review how EBT cards or PINs were stored. County office staff stated that they perform periodic reviews, but the reviews only consist of recertifying GLA residents.

We also found that, at one county office, six clerks that issue EBT cards had access to the vault where unissued EBT cards were stored. The State did not provide any guidance to county offices or review employees' need to access unissued EBT cards.

Since the completion of our fieldwork, the State has taken action to improve oversight of GLA facilities. In September 2003, State officials advised that they had developed a list of all GLA facilities. The officials also stated that staff would participate in training and reviewing GLA facilities as well as providing written guidelines. In addition, the officials stated that access to unissued cards would be reviewed at all county offices.

Contract Lapse

The State operated without a signed service agreement for over 4 months. As a result, clients' access to FSP benefits valued at $51.4 million could have been jeopardized had the processor discontinued EBT operational services.

The service agreement between the State and the EBT processor lapsed on April 16, 2003. The amendment was signed on September 9, 2003. This was more than 4 months after the service agreement lapsed. We informed State officials during a meeting in July 2003 that we had not been provided a signed amendment for the service agreement. One State official explained

[6] Title 7, CFR, part 274, section 274.12(i)(3), revised January 1, 2003.

that the amendment was overlooked due to an excessive workload and because the two parties were involved in contract negotiations.

FNS officials were aware of the issue. A letter dated May 2, 2003, from the FNSRO to the State acknowledged that having no contract in place leaves the State and FNS in a "very undesirable situation" since the EBT processor would have no legal obligation to continue providing EBT services. FNS gave approval of the service agreement extension in a letter to the State dated June 24, 2003.

Additionally, the previous year's amendment to the service agreement also expired before being renewed. Amendment number three to the service agreement was effective April 17, 2002, through April 16, 2003. The amendment was not signed until July 2002. In this instance, negotiations for extension of the service agreement began in February 2002.

The value of FSP benefits at risk for April 17, 2003, through August 17, 2003, is $51,454,922. This amount was calculated using FNS FSP benefit data as of July 25, 2003, for FY 2002. The calculation of this amount is shown in the table below.

Total FSP Benefits For FY 2002	$154,364,768
Monthly Average For FY 2002 ($154,364,768/12 months)	12,863,730
Number Of Months Operating With Lapsed Service Agreement	4
Value Of FSP Benefits At Risk	**$ 51,454,922**

In September 2003, the State initiated action to ensure that service agreement amendments are approved timely.

Dormant Accounts

The State was not monitoring the dormant accounts reports. Therefore, any needed adjustments, such as clients no longer needing benefits, were not made.

Clients' EBT accounts are marked as inactive after there has been no debit activity for at least 45 days. EBT accounts are marked as dormant after there has been no activity for 90 days. The processor provided a daily report of dormant accounts; however, the State was not reviewing this report. The service agreement with the processor indicates that the State would use the reports to contact clients and determine why benefits were not used. Existing clients on the EBT system are given new benefit authorizations each month as stated above in Finding No l. Therefore, benefits were continually added to dormant accounts with no review for continued need. We believe that monitoring dormant accounts is a part of efficient and effective program administration as outlined at the beginning of this section.

During our fieldwork, the State staff informed us that they would begin to monitor the dormant accounts reports.

Daily Reconciliation

The State did not always perform required reconciliations of the EBT system on a daily basis. The reconciliation process ensures that the EBT system reflects the correct amounts for benefit issuance and retailer settlement. As a result, there is an increased risk of errors occurring in the reconciliation process.

Federal regulations state that certain EBT reconciliations are to be performed on a daily basis.[7] These reconciliations include individual account balances against household activity and total funds entering into, exiting from, and remaining in the EBT system each day.

The State staff advised that there were no written procedures for the EBT reconciliation process and that only one person was trained in the process. In June 2000, FNS had advised the State that the reconciliation procedures should be updated, and additional employees needed to be trained in the reconciliation process. In September 2003, State officials informed us that an additional employee was being trained, and the procedures were in the process of being written.

Staff Training

Not all county office staffs have received EBT training manuals from the State EBT staff. Also, the State office EBT staff needs training and written procedures for EBT activities for the current processor.

In addition to effective and efficient administration of programs, Federal regulations require State agencies to prepare and provide to staff responsible for administering the program written operating procedures.[8] Further, the regulations require a description of the training program, including a listing of the organization conducting the training, participants in attendance, and how often the training is provided.[9]

Our review at two county offices showed neither of the offices had been provided written procedures for issuance of EBT cards. We also found that the State EBT staff had not trained all county offices in EBT procedures such as card issuance and PIN selection. Approximately half of the 33 county offices had not been trained on procedures for the current processor.

[7] Title 7, CFR, part 274, section 274.12(k)(1), revised January 1, 2003.
[8] Title 7, CFR, part 274, section 274.12(a), revised January 1, 2003.
[9] Title 7, CFR, part 272, section 272.3(a)(1)(x)(4), revised January 1, 2003.

The State staff did not have written procedures for gathering data used to prepare the FNS-209, Status of Claims Against Households, report and the FNS-46, Issuance Reconciliation, report. We also determined that the State EBT staff did not have a process for monitoring EBT operations. In addition, State office staff did not always review management reports that were provided by the processor.

In September 2003, State officials informed us that each area would begin reviewing its operating procedures and making needed changes as part of an effort to improve financial management. The officials also stated that they have trained nine county offices and will provide a manual for EBT operations in all county offices. A manual also is being developed that will contain procedures and job duties for the State office's EBT staff.

Manual Vouchers

Manual vouchers were not completed to support retailers' manual transactions. As a result, no manual vouchers were available for transactions averaging $32,500 per month.

Federal regulations require that the State agency shall be responsible for the coordination and management of the EBT system.[10] The service agreement and various other processor agreements require the completion of manual vouchers.

After selecting a sample of vouchers for verification, we were informed that the retailers did not use the manual vouchers. State personnel also told us that manual vouchers were not completed or necessary because the manual voucher transactions are cleared electronically once the system is available. However, the service agreement, third-party processor agreement, retailer agreement, and the retailer EBT manual all contain provisions for processing manual vouchers. Neither the processor nor the retailers are following these procedures. We determined that the average monthly amount of manual voucher transactions for the months of December 2002 through May 2003 was $32,494.

In September 2003, a State official advised that, after speaking with an FNS official, they plan to contact some of the smaller retailers to determine if the retailers use manual vouchers.

Coupon Control

The State did not remove terminated employee access, or review current employees' need for access to the bank vault where FSP coupons were

[10] Title 7, CFR, part 274, section 274.12(b)(2), revised January 1, 2003.

stored. Also, the State did not follow internal procedures for inventorying FSP coupons.

Federal regulations require States to ensure that coupons are secured and protected from loss or damage.[11] State internal procedures state that an inventory is to be done on a monthly basis.

The State staff did not update the list of employees authorized access to stored food stamp coupons. There were eight employees authorized to access the bank vault where FSP coupons were stored. We found that two of the eight employees did not need access to the stored coupons. One employee did not have EBT job duties, and the other was no longer a State employee.

We also found that the State did not always inventory FSP coupons in the month they were received. The inventory of FSP coupons performed at the end of March 2003 did not include FSP coupons received during that month. The FSP coupons received in March were included in the June 2003 inventory (3 months later).

State officials informed us that they allowed multiple employees access to the bank vault for backup purposes. The State also said that, since our fieldwork, they have updated the list of employees authorized to access the vault.

Recommendation No. 7

Direct the State to establish written internal controls to ensure that:

(a) Help Desk functions are monitored (include controls to monitor logging of returned EBT cards and ensure that circumstances are noted when EBT cards are deactivated),
(b) a complaint resolution process is established that includes time periods for the resolution,
(c) access to unissued EBT cards is limited to the least number of personnel (such as one or two employees),
(d) a review of controls over unissued cards is included in the management evaluations that are performed at county offices,
(e) EBT activities at GLA facilities are monitored during facility reviews,
(f) service agreements with the EBT processor are not allowed to expire,
(g) dormant accounts are reviewed to determine if additional benefits should be added to the accounts,
(h) appropriate reconciliations are performed on a daily basis,
(i) training of the State and county office EBT staffs is completed (include a schedule of planned training for FY 2004),

[11] Title 7, CFR, part 274, section 274.7(b)(1), revised January 1, 2003.

(j) procedure manual is developed for monitoring State office EBT operations,
(k) the processor monitors retailer compliance with signed agreements, including preparation and maintenance of manual voucher documentation, or modifies the documents to reflect alternate procedures,
(l) proper access to stored FSP coupons is established. Include provisions to ensure inventory is perpetual and for determining a continued need for access to FSP coupons.

Agency Response.

7(a), 7(b), 7(d), 7(g), 7(i), 7(j), and 7(l). FNS concurs with these recommendations. By April 9, 2004, FNS will issue a letter, with a copy to OIG, so directing the State.

7(c). FNS partially concurs with the recommendation. FNS understands that the OIG auditors had discussions with the State's staff on this particular issue, and the staff agreed with the recommendation to reduce the number of employees that can access the unissued EBT card stock in any individual office. The official draft report is recommending no more than one or two employees in any given office have access to the unissued EBT card stock. FNS is unaware of any breaches of security because a given State office may currently have more than one or two employees (the recommendation by OIG) having access to the unissued EBT card stock. FNS foresees potential problems if any given State office has only one employee authorized to access the card stock. If that employee is out of the office, cards do not get issued. FNS foresees potential problems if as few as two employees in a high volume office are authorized access to the card stock. There could be a significant degradation of client services. Therefore, FNS will assist the State in arriving at a number between OIG's recommendation of no more than one or two employees at any given office, and six employees that OIG found in one office and deemed excessive. By April 9, 2004, FNS will issue a letter, with a copy to OIG, so directing the State.

7(e). FNS concurs with the recommendation. However, the background information provided in the report narrative leads FNS to believe that OIG has erroneously arrived at this conclusion. Other than requiring the State to include EBT activities whenever the State agency conducts onsite reviews of GLAs, FNS is not sure what specific EBT activities OIG would expect to be included in that onsite review. By April 9, 2004, FNS will issue a letter, with a copy to OIG, so directing the State.

7(f). FNS concurs with the recommendation. FNS has been informed by the State that it has already executed the necessary EBT contract amendment, effective April 17, 2004.

7(h). FNS partially concurs with the recommendation. FNS will remind the State of this requirement. The office was unaware that the State agency was not performing the necessary daily reconciliations of the EBT system. In their conversations with the State agency, the staff reaffirmed that these daily reconciliations were occurring and reported that the particular topic was not raised with the State agency during OIG's exit conference with them. As a point of interest, FNS has never required any State agency to reconcile each individual EBT account on a daily basis. That exercise would be a workload issue well beyond the resources of any State agency. By April 9, 2004, FNS will issue a letter, with a copy to OIG, so directing the State.

7(k). FNS does not concur with the recommendation. There is no Federal regulation that requires any retailer to execute a manual voucher. For most retailers, manual vouchers are an option that can be used if the EBT system is not operational. FNS has attempted to explain this EBT functionality to the OIG auditors, and FNS perceives the official draft report to be reflective of a misunderstanding on the part of the auditors. FNS will be elevating this particular finding and recommendation to the national office for resolution.

OIG Position.

7(a), 7(b), 7(d), 7(g), 7(i), 7(j), and 7(l). We agree with the planned actions; however, to reach management decisions, we will need a copy of the letter to the State and proposed completion dates of the directed actions.

7(c). We agree with FNS' alternate plan for the number of employees with access to unissued EBT cards. To reach management decision, we need to review the specific language in a plan for the county offices and the proposed dates for completion.

7(e). The county office staff did not review how EBT cards or PINs were stored at the GLA facilities. County office staff stated that they perform periodic reviews, but the reviews only consist of recertifying GLA residents. To reach management decision, we need a plan for monitoring EBT activities at GLA facilities during facility reviews. The plan for county office monitoring of GLA facilities should include at least the areas mentioned above (storage of EBT card and PINs). The plan also should include proposed completion date.

7(f). We agree with the planned action. To reach management decision, we will need a copy of the EBT contract amendment.

7(h). The State staff advised that there were no written procedures for the EBT reconciliation process and that only one person was trained in the process. When that employee was not on duty, the reconciliations were not performed. In September 2003, State officials informed OIG that an

additional employee was being trained, and the procedures were in the process of being written. To reach management decision, we need documentation to show the State has established written procedures for the necessary daily reconciliations to ensure they are performed. We also will need the proposed completion date for this action.

7(k). Federal regulations require that the State agency shall be responsible for the coordination and management of the EBT system. The service agreement and various other processor agreements require the completion of manual vouchers. We believe that the State should ensure that retailers comply with the agreements that each retailer has signed with the EBT processor. The agreements state that manual vouchers will be used if the EBT system is not operational.

Finding 5 No Internal Audits And Timely Resolution Of Single Audit Findings

The State was not performing internal audits of its EBT operations or ensuring timely resolutions of single audit findings. The State did not have adequate controls for internal audits and single audit corrective-action plans. As a result, there is an increased risk of errors and fraud in the State's EBT operations.

Federal regulations require States to be responsible for the coordination and management of the EBT system.[12] Systems for resolution must provide a means to assure timely responses to audit reports.[13] Further, the auditee shall ensure that the A-133 Single Audits are properly performed and submitted when due. The audit shall be completed along with data collection within the earlier of 30 days after receipt of auditor's report, or 9 months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency.[14]

The State's annual single audits cover the period ending June 30. At the time our fieldwork was completed, The State's FY 2002 Single Audit Report was 7 months late. The FY 2002 Single Audit Report was due March 2003, 9 months after the end of the audit period. The FY 2001 Single Audit Report was submitted 5 months after it was due. The State had not contacted the cognizant agency to advise that the FY 2002 Single Audit Report would be late and request an extension, as required by Federal regulation.[15]

[12] Title 7, CFR, part 274, section 274.12(b)(2), revised January 1, 2003.
[13] Office of Management and Budget (OMB) Circular A-50, Audit Followup, revised September 29, 1982.
[14] OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations, revised June 27, 2003.
[15] OBM Circular A-133, Audit of States, Local Governments, and Nonprofit Organizations, revised June 27, 2003.

Our review of the latest available single audit report (FY 2001) revealed that the State had 42 repeat findings and 17 new ones; 5 were EBT related. We found that not all corrective-action milestone dates had been met.

For example, the FY 2001 single audit found that the accounts payable balance did not agree with outstanding EBT issuance in the cash account. EBT balances that were outstanding greater than 1 year had not been expunged. The corrective-action plan had 10 milestone dates that the State had agreed to meet.

The State official responsible for corrective action advised that the vouchers-payable problem had been resolved. The official was not sure if other areas of the corrective-action plan had been resolved, although the corrective-action plan designated the official as the responsible party. One State official informed us that the current staff had inherited audit issues from the previous administrations, and, due to the number of issues, resolution has been difficult.

In addition, the State had not performed internal audits or other reviews of EBT operations. The processor had an audit of its operations as required by Federal regulations. We believe that internal reviews are part of effective and efficient management. As a result, there was no assurance that adequate controls had been established or were being followed.

The FY 2001 Single Audit performed by an independent audit firm found that many of the reportable conditions and instances of noncompliance identified during current and prior years' audits, as well as reviews, resulted from a breakdown of established control procedures. The audit report also stated that, historically, the State's internal audit department investigates situations only when notified of problems and not on a proactive basis. The report also found that the State was not a low-risk auditee.

At the completion of our onsite fieldwork, the State began an overall risk assessment and completed an audit plan for FY 2003, which includes audits of EBT operations.

Recommendation No. 8

Direct the State to establish written internal controls that ensure EBT corrective-action plan milestones are met.

Agency Response.

FNS concurs with the recommendation and will direct the State to develop this control.

OIG Position. We agree with the planned action to direct the State to develop written internal controls to ensure that corrective-action plan milestones are met. To reach management decision, we will need a copy of the letter to the State and a proposed completion date.

Recommendation No. 9

Review the State's schedule of planned internal audits to determine if planned EBT audits are appropriate, considering the most recent A-133 Single Audit findings.

Agency Response. FNS partially concurs with the recommendation. We are obtaining a schedule of planned internal audits. At this time, FNS is unable to determine the adequacy of the State's audit plan because we have just received the FY 2001 A-133 audit. In addition, the FY 2002 A-133 audit reflects no findings for the FSP.

OIG Position. We agree with the planned action to review the State's schedule of planned audits, considering recent A-133 Single Audit findings. To reach management decision we need documentation of the planned review with a proposed completion date.

We determined that FNS' oversight of State EBT operations was not adequate for New Mexico. This occurred because FNS did not have internal controls to ensure that the normal oversight procedures were modified for States that are not low risk. In addition, FNS did not have controls to ensure that an EBT account adjustment was made. As a result (1) there were numerous deficiencies in the State's EBT operations, and (2) we questioned $465,131 that was overstated in the funds available for New Mexico FSP benefits.

Finding 6 Oversight Not Adequate

FNS' oversight of the State was not adequate considering the history of operational problems. Consequently, the State's EBT operations had an increased risk of errors and fraud occurring.

Departmental regulations state that agencies are responsible for assessing the risks that may impair program operations on, at least, an annual basis. In addition, the agency is to periodically assess the adequacy of internal controls for programs, commensurate with the level of risk.[16]

FNS' EBT staff relies on calls from clients and retailers as an indication of problems with the State's operations. The EBT staff did not perform routine visits to monitor daily EBT operations. The FNS Financial Management staff had not visited the State since June 2002 when they performed an audit of the reconciliation process.

After reviewing the State's EBT operations, we determined that the State did not have adequate internal controls. (See section 1.) For example, the EBT processor did not expunge aged benefits for 2 years, and the State did not research and remove benefit authorizations from a pending file used for storing benefits for which an EBT card had not been issued. The State also allowed the EBT contract to lapse by not ensuring that an amendment extending the contract was signed in a timely manner. (See Finding No. 4.)

Also, New Mexico's most recently published A-133 Single Audit indicated 42 repeat findings and 17 new findings, and indicated that the State was not a low-risk auditee. There were five repeat findings for EBT-related issues. The State was not meeting corrective-action milestone dates, and FNS was not monitoring the State's resolution progress. OIG acknowledges that

[16] USDA Departmental Regulation 1110-2, dated February 23, 1999.

FNS is not the cognizant agency for ensuring that A-133 findings are resolved; however, FNS does have the overall responsibility of using whatever information is available to ensure efficiency and effectiveness of the FSP. This includes, but is not limited to, information received from Performance Reporting System reviews, Federal reviews, audits, investigations, corrective-action plans, financial management reviews, and the public.[17]

Recommendation No. 10

Establish written internal controls to ensure that:
(a) oversight of State EBT operations is appropriate (such as the use of historical information and risk assessments), and
(b) State A-133 Single Audit Reports are reviewed at the appropriate levels of FNS management.

Agency Response.

10(a). FNS partially concurs with the recommendation. This office will conduct an onsite EBT review in New Mexico during FY 2004. However, concerning FNS onsite reviews, these will be made based on the availability of travel funds. These reviews were unplanned activities for FY 2004, and FNS has recently been informed by management that travel funds may not be available to cover all travel needs.

10(b). FNS does not concur with the recommendation. FNS already has a process in place to review single audits. However, the adequacy of that process is beyond the scope of this audit. We will be elevating this particular finding and recommendation to our national office.

OIG Position.

10(a). The FNS response did not address establishing written internal controls for oversight appropriate to the State (such as the use of historical information and risk assessments). To reach management decision, we need a plan to establish written internal controls and the proposed completion date.

10(b). During our fieldwork at the FNS Regional Office, we determined that the A-133 Single Audits were not reviewed by the EBT Regional Coordinator. We continue to believe that the A-133 Single Audit reports should be reviewed at the appropriate management level. To reach management decision we need a plan, containing a proposed completion date, to ensure that A-133 Single Audit reports are reviewed at the appropriate level to ensure the resolution of EBT findings.

[17] Title 7, CFR, part 276, section 276.4, revised January 1, 2001.

Recommendation No. 11

Perform a followup review of the State's EBT operations in FY 2004 and provide the results to OIG for information purposes. Include the areas mentioned in the findings in this report as part of the review.

Agency Response. FNS partially concurs with the recommendation. As mentioned in the response to Recommendation No. 10(a), this office will conduct an onsite review in New Mexico during FY 2004. However, as discussed elsewhere in the responses to this official draft report, the onsite review may or may not include all of the areas mentioned in the findings and recommendations of this official draft report. Please see FNS' comments under Recommendation No. 10(a) concerning the availability of travel funds for unplanned activities.

OIG Position. To reach management decision, we need a plan for the onsite review and a proposed completion date.

Finding 7 Automated Standard Application For Payments Adjustment Not Made

The Automated Standard Application for Payments (ASAP) account for New Mexico needed an adjustment that was not made. The ASAP balance for the State needs to be reduced by $465,131 to correct an error made during the account setup, resulting in an incorrect balance.

Departmental regulations state that agencies are to provide reasonable assurance that revenues and expenditures are properly recorded.[18]

ASAP is an electronic payment system that allows States to draw Federal FSP funds from an account that is preauthorized by the FNS. States request payment for FSP transactions by making ASAP requests each day. When the State changed to its current processor, an error occurred in the account setup. The account was established with an incorrect balance. At the time of our onsite fieldwork, FNS had not made the ASAP adjustment for the error that occurred in January 1999. The FNSRO had notified the FNS National Office of the discrepancy and is still waiting for the adjustment to be made. The potential for error in the State's reconciliation process is increased due to the recurring adjustment (the $465,131 account setup error) that is made by the State each day. As stated above in Finding No. 4, the State did not have written reconciliation procedures, and

[18] USDA Departmental Regulation 1110-2, dated February 23, 1999.

there was only one employee trained in the process, increasing the potential for error.

Recommendation No. 12

Take necessary action to ensure that adjustments to New Mexico's ASAP account balance are completed, including the $465,131 identified above.

Agency Response. FNS concurs with the recommendation. FNS will soon complete the adjustment in the amount of $465,131.

OIG Position. We agree with the planned action; however, to reach management decision, we need documentation showing the adjustment has been made.

Scope and Methodology

As of May 2003, 47 States, the District of Columbia, the Virgin Islands, and Puerto Rico used EBT systems to deliver FSP benefits. We selected New Mexico for review because there had not been an audit performed since the State changed processors in April 1998. New Mexico delivered approximately $167 million in FSP benefits from October 2002 through August 2003. Our fieldwork was performed during the period May through October 2003 and included coverage of FY 2003, and prior years as deemed necessary, to develop our findings.

Audit coverage included the FNSRO in Dallas, Texas; State office EBT operations in Santa Fe and Albuquerque, New Mexico; two county offices; and two GLA facilities in Albuquerque, New Mexico. We selected the two county offices based on the number of FSP cases processed. The two GLA facilities were monitored by the two selected county offices. For FY 2003, we reviewed controls and procedures established by FNS, the State, and the processor, including drawdown and settlement, authorization and logon access to the EBT system, reconciliation, conversion of EBT benefits to food stamp coupons, routine oversight, expungement reporting, and recoupment of benefits.

The audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Accordingly, the audit included such tests of program and accounting records as considered necessary to meet the audit objectives.

To accomplish our objectives and support our findings, we performed the following procedures:

- We reviewed Federal regulations and State policies and procedures governing the FSP and EBT operations.
- We reviewed the results of the most recent State audit performed under the Single Audit Act to identify issues concerning EBT.
- We relied on documentary, analytical, and testimonial evidence to determine the policies and procedures the State uses for EBT operations, such as reconciliation, recoupment, expungement, and logon access, to identify any issues of concern.
- We observed EBT activities such as EBT card issuance, coupon inventory, and EBT card storage at GLA facilities.

In addition to the above mentioned, we also discussed any concerns regarding the operations of the FSP with the FNSRO and State personnel.

Exhibit A – Summary of Monetary Results

FINDING NUMBER	RECOMMENDATION NUMBER	DESCRIPTION	AMOUNT	CATEGORY
1	1	Benefit Authorizations Not Posted	$ 555,521	Accounting Classification Error
2	4	Overpayment Of EBT Service Fees	95,553	Questioned Cost, Recovery Recommended
7	12	ASAP Adjustment Not Made	465,131	Accounting Classification Error
Total			**$1,116,205**	

Exhibit B – Audit Sites Visited

TYPE	ENTITY	LOCATION
Federal	FNS Regional Office	Dallas, TX
State	New Mexico Human Services Department	Santa Fe, NM
State	New Mexico Income Support Division	Albuquerque, NM
County	Southwest County Office	Albuquerque, NM
County	Southeast County Office	Albuquerque, NM
Group Living Arrangement	Salvation Army	Albuquerque, NM
Group Living Arrangement	Philadelphia Ministries	Albuquerque, NM

USDA

United States Department of Agriculture
Food and Nutrition Service

Southwest Region

FEB 27 2004

Reply to Attn of: SWFS-303

Subject: FSP – 27099-18-Te – Continued Monitoring of EBT System Development – State of New Mexico

To:

Timothy R. Milliken
Regional Inspector General
for Audit

In response to your official draft report of subject audit dated January 12, 2004, we provide the following comments:

Recommendation No. 1

"Direct the State to determine which of the current authorizations needs to be removed and researched, including the $555,521 identified above, and make the appropriate accounting adjustments."

We concur with your recommendation. The existence of a pending file on the Morgan Chase EBT system is a system design approved by the Food and Nutrition Service (FNS) and in operation in more than one State. In this Region, we have no knowledge of any fraudulent activity as a result of misuse of the pending file. Because of the New Mexico Human Services Department (NMHSD) EBT system design, there is no liability to the Federal government until benefits are posted to and made available in the clients' accounts.

Because this will be a change in software, we are not sure of the time required to accomplish these changes. We understand that NMHSD has just executed a two-year contract extension with Morgan Chase which effectively extends the current contract through mid-April 2006. If it is determined that the programming changes requested under this recommendation are cost prohibitive (used for less than a two-year period), we will approach USDA OIG and ask for a reconsideration of this recommendation. This office will ensure that the replacement contract effective mid-April 2006 will not have this design feature in it. By April 9, 2004, this office will issue a letter, with a copy to you, so directing NMHSD.

Recommendation No. 2

"Direct the State to establish written internal controls to ensure that authorizations that do not have EBT cards issued are timely (for example, within 60 days) removed from the pending file and researched."

FORM FCS-605 (3-96)

1100 Commerce Street ■ Dallas, TX 75242-1005

We concur with your recommendation. The development of these written internal controls will be tied to the time lines for Recommendation No. 1. By April 9, 2004, this office will issue a letter, with a copy to you, so directing NMHSD.

Recommendation No. 3

"Direct the State, in consultation with FNS, to analyze the authorization process and determine if authorizations need to be sent to the processor before an EBT card is issued to the client. If so, modify the process before the next EBT contract is finalized."

We concur with your recommendation. Even with the latest and final two-year extension on the NMHSD contract, combined with the corrective actions under Recommendations No. 1 and No. 2, corrective actions for Recommendation No. 3 will be applicable to the replacement EBT contract only. It is not our intent to implement Recommendation No. 3 corrective actions on the current contract. By April 9, 2004, this office will issue a letter, with a copy to you, so directing NMHSD.

Recommendation No. 4

"Take the necessary action to:

(a) bill the State for $95,553 (or the applicable amount) in overpaid FSP fees from January 2002 to May 2003, and determine if other amounts need to be recovered for invoices approved after May 2003; and

(b) establish written internal controls to ensure that future invoices comply with the approved fee schedule."

4(a). We concur with your recommendation. FNS will take the necessary action and bill NMHSD for the applicable dollar amount.

4(b). We concur with your recommendation. By April 9, 2004, this office will issue a letter, with a copy to you, so directing NMHSD.

Recommendation No. 5

"Direct the State to review all current EBT system users and correct any multiple user IDs and access conflicts (employees that can issue EBT cards should not be able to issue food stamp benefits) that exist. Strengthen controls to monitor employees with access conflicts until the issue is resolved."

We concur with your recommendation. By April 9, 2004, this office will issue a letter, with a copy to you, so directing NMHSD.

Recommendation No. 6

"Direct the State to:

(a) make the necessary software changes to eliminate access conflicts, and

(b) establish control procedures to periodically monitor the list of EBT system users for multiple users IDs and incompatible access."

6(a). We concur with your recommendation. By April 9, 2004, this office will issue a letter, with a copy to you, so directing NMHSD.

6(b). We concur with your recommendation. By April 9, 2004, this office will issue a letter, with a copy to you, so directing NMHSD.

Recommendation No. 7

"Direct the State to establish written internal controls to ensure that:
(a) Help Desk functions are monitored (include controls to monitor logging of returned EBT cards and ensure that circumstances are noted when EBT cards are deactivated),
(b) a complaint resolution process is established that includes time periods for the resolution,
(c) access to unissued EBT cards is limited to the least number of personnel (such as one or two employees),
(d) a review of controls over unissued cards is included in the management evaluations that are performed at county offices,
(e) EBT activities at GLA facilities are monitored during facility reviews,
(f) service agreements with the EBT processor are not allowed to expire,
(g) dormant accounts are reviewed to determine if additional benefits should be added to the accounts,
(h) appropriate reconciliations are performed on a daily basis,
(i) training of the State and county office EBT staffs is completed (include a schedule of planned training for FY 2004),
(j) procedure manual is developed for monitoring State office EBT operations,
(k) the processor monitors retailer compliance with signed agreements, including preparation and maintenance of manual voucher documentation, or modify the documents to reflect alternate procedures,
(l) proper access to stored FSP coupons is established. Include provisions to ensure inventory is perpetual and for determining a continued need for access to FSP coupons."

7(a). We concur with your recommendation. By April 9, 2004, this office will issue a letter, with a copy to you, so directing NMHSD.

7(b). We concur with your recommendation. By April 9, 2004, this office will issue a letter, with a copy to you, so directing NMHSD.

7(c). We partially concur with your recommendation. We understand that the USDA OIG auditors had discussions with NMHSD staff on this particular issue, and NMHSD staff agreed with the recommendation to reduce the number of State employees that can access the unissued EBT card stock in any individual office. The USDA OIG official draft report is recommending no more than one or two employees in any given office have access to the

unissued EBT card stock. This office is unaware of any breaches of security because a given State office may currently have more than one or two employees, the recommendation by USDA OIG, having access to the unissued EBT card stock. We foresee potential problems if any given State office has only one employee authorized to access the card stock. If that employee is out of the office, cards do not get issued. We foresee potential problems if as few as two employees in a high volume office are authorized access to the card stock. There could be a significant degradation of client services. Therefore, we will assist NMHSD in arriving at a number between your recommendation of no more than one or two employees at any given office, and six employees which you found in one office and deemed excessive. By April 9, 2004, this office will issue a letter, with a copy to you, so directing NMHSD.

7(d). We concur with your recommendation. By April 9, 2004, this office will issue a letter, with a copy to you, so directing NMHSD.

7(e). We concur with your recommendation. However, the background information provided in your report narrative leads us to believe that you have erroneously arrived at this conclusion. Other than requiring NMHSD to include EBT activities whenever the State agency conducts onsite reviews of Group Living Arrangements, we are not sure what specific EBT activities you would expect to be included in that onsite review. By April 9, 2004, this office will issue a letter, with a copy to you, so directing NMHSD.

7(f). We concur with your recommendation. We have been informed by NMHSD that it has already executed the necessary EBT contract amendment, effective date April 17, 2004.

7(g). We concur with your recommendation. By April 9, 2004, this office will issue a letter, with a copy to you, so directing NMHSD.

7(h). We partially concur with your recommendation. We will remind NMHSD of this requirement. This office was unaware that the State agency was not performing the necessary daily reconciliations of the EBT system. In our conversations with the State agency, NMHSD staff reaffirmed that these daily reconciliations were occurring and reported that this particular topic was not raised with the State agency during your exit conference with them. As a point of interest, FNS has never required any State agency to reconcile each individual EBT account on a daily basis. That exercise would be a workload issue well beyond the resources of any State agency. By April 9, 2004, this office will issue a letter, with a copy to you, so directing NMHSD.

7(i). We concur with your recommendation. By April 9, 2004, this office will issue a letter, with a copy to you, so directing NMHSD.

7(j). We concur with your recommendation. By April 9, 2004, this office will issue a letter, with a copy to you, so directing NMHSD.

7(k). We do not concur with your recommendation. There is no Federal regulation that requires any retailer to execute a manual voucher. For most retailers, manual vouchers are

an option that can be used if the EBT system is not operational. We have attempted to explain this EBT functionality to the USDA OIG auditors, and we perceive the official draft report to be reflective of a misunderstanding on the part of the OIG auditors. We will be elevating this particular finding and recommendation to our National Office for resolution.

7(l). We concur with your recommendation. By April 9, 2004, this office will issue a letter, with a copy to you, so directing NMHSD.

Recommendation No. 8

"Direct the State to establish written internal controls that:
(a) ensure EBT corrective-action plan milestones are met, and
(b) provide reasonable assurance for meeting A-133 Single Audit Report submission guidelines."

8(a). We partially concur with your recommendation. However, we cannot so direct NMHSD to develop this control until a resolution to Recommendation No. 8(b) has been reached.

8(b). We do not concur with your recommendation. We believe this recommendation, as written in this official draft report, is beyond the scope of an EBT systems control audit. We have determined that the single audit report, (Fiscal Year (FY) 2001), discussed in the official draft report, was received at the Federal Audit Clearinghouse on November 7, 2002. The subject A-133 audit was not received at the FNS Southwest Regional Office (SWRO) until February 17, 2004. We believe it is unreasonable to require the SWRO to monitor the submission of audit reports such as these when (1) FNS is not directly involved in the audit, and (2) FNS does not even know the name of the entity conducting the audit. If your office and our office cannot agree on Recommendation No. 8(b), then we are asking that it be elevated to our respective National Offices for resolution.

Recommendation No. 9

"Review the State's schedule of planned internal audits to determine if planned EBT audits are appropriate, considering the most recent A-133 Single Audit findings."

We partially concur with your recommendation. We are obtaining a schedule of planned internal audits. At this time, we are unable to determine the adequacy of NMHSD's audit plan because we have just received the FY 2001 A-133 audit. In addition, the FY 2002 A-133 audit reflects no findings for the Food Stamp Program.

Recommendation No. 10

"Establish written internal controls to ensure that:
(a) oversight of State EBT operations is appropriate (such as the use of historical information and risk assessments), and

(b) State A-133 Single Audit Reports are reviewed at the appropriate levels of FNS management."

10(a). We partially concur with your recommendation. This office will conduct an onsite EBT review in New Mexico during FY 2004. However, concerning FNS onsite reviews, these will be made based on the availability of travel funds. These reviews were unplanned activities for FY 2004, and we have recently been informed by our management that travel funds may not be available to cover all travel needs.

10(b). We do not concur with your recommendation. FNS already has a process in place to review single audits. However, the adequacy of that process is beyond the scope of this audit. We will be elevating this particular finding and recommendation to our National Office.

Recommendation No. 11

"Perform a followup review of the State EBT operations in FY 2004 and provide the results to USDA OIG Audit for information purposes. Include the areas mentioned in the findings in this report as part of the review."

We partially concur with your recommendation. As mentioned in our response to Recommendation No. 10(a), this office will conduct an onsite review in New Mexico during FY 2004. However, as discussed elsewhere in our responses to this official draft report, the onsite review may or may not include all of the areas mentioned in the findings and recommendations of this official draft report. Please see our comments under 10(a) concerning the availability of travel funds for unplanned activities.

Recommendation No. 12

"Take necessary action to ensure that adjustments to New Mexico's ASAP account balance are completed, including the $465,131 identified above."

We concur with your recommendation. FNS will soon complete the adjustment in the amount of $465,131.

If you have any questions, please contact Phil Swain or Kathy Yarbrough, of the Food Stamp Program, at (214) 290-9804.

WILLIAM LUDWIG
Regional Administrator

Glossary of Terms

Automated Standard Application Payments - ASAP is a system developed jointly by the Federal Reserve Board of Richmond and the U.S. Department of the Treasury. The system serves as the centralized requesting point for Federal fund payments.

Expungement – The process of removing the remaining balance of FSP benefits from any EBT system account that has not been accessed by the household in 1 year. Households lose all rights to expunged benefits. Expungement is required by Title 7, CFR, section 274.12(f)(7).

Group Living Arrangement – Examples of GLAs are drug/alcohol treatment rehabilitation programs, or group homes for blind or disabled residents. We were concerned with their activities as they relate to EBT operations.

Manual Transaction – A nonautomated transaction whereby a retailer completes a manual voucher (paper sales draft), and obtains the cardholder signature and a telephone authorization code (number) from the EBT processor. Manual transactions are used in cases of damaged EBT benefit cards, inoperable POS equipment, or by retailers where POS equipment has not been installed.

Integrated Services Delivery System – ISD2 is the State's eligibility system used by New Mexico for issuing food stamp benefits.

Informational copies of this report have been distributed to:

Regional Administrator, FNS Dallas, TX	(6)
Agency Liaison Officer	(3)
EBT Regional Coordinator, FNS, Dallas, TX	(1)
OCFO	(1)
OCFO, PAD Audit Liaison Officer	(1)
GAO	(2)
OMB	(1)