

***NEW YORK STATE
OFFICE OF THE STATE COMPTROLLER***

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FIRST DEPUTY COMPTROLLER



***OFFICE OF TEMPORARY AND DISABILITY
ASSISTANCE***

ELECTRONIC BENEFIT TRANSFER SYSTEM

99-S-51

**DIVISION OF MANAGEMENT AUDIT AND
STATE FINANCIAL SERVICES**



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FIRST DEPUTY COMPTROLLER

Report 99-S-51

Mr. Brian Wing
Commissioner
Office of Temporary and Disability Assistance
40 North Pearl Street
Albany, NY 12243

Dear Mr. Wing:

The following is our audit report on the Electronic Benefit Transfer System that the Office of Temporary and Disability Assistance uses to make benefit payments for Food Stamps and public assistance cash benefits.

This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law. Major contributors to this report are listed in Appendix A.

*Office of the State Comptroller
Division of Management Audit
and State Financial Services*

July 26, 2001

Division of Management Audit and State Financial Services

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Executive Summary

Office of Temporary and Disability Assistance Electronic Benefit Transfer System

Scope of Audit

The Office of Temporary and Disability Assistance (OTDA) oversees temporary assistance programs and administers the U.S. Department of Agriculture's Food Stamp program. New York State is participating in a coalition of seven Northeast states that have contracted with Citicorp Services, Inc. (Citicorp) to develop and operate an Electronic Benefit Transfer (EBT) system. Citicorp had converted all of New York City's boroughs to the system by Fall 1999, and implemented the system statewide by February 2001.

The EBT system allows clients to use their Common Benefit Identification Card (Card) like a bank card to access their benefits. Clients can withdraw funds from their "cash account" (public assistance payments) at Automated Teller Machines (ATMs) and purchase food with funds from their "food stamp account" through Point-Of-Sale terminals at locations authorized to accept food stamps. The EBT system is supposed to give clients easy and free access to their benefits at Citicorp-affiliated ATMs. For the month of December 1999, New York City clients had food stamp benefits totaling \$83 million, and public assistance benefits totaling \$77.6 million deposited in their EBT accounts.

The State's contract with Citicorp, signed in March 1996, specifies 36 deliverables (e.g., design and training plans) as well as contractor performance standards. The State has a separate contract with Continental Card Services (Continental) to produce the Cards at two New York City sites. The Continental contract also specifies certain deliverables (reports) and performance standards.

Our audit addressed the following questions about OTDA's EBT implementation efforts in New York City for the period March 28, 1996 to July 5, 2000:

- ! Is the EBT system being implemented effectively?
- ! Does OTDA ensure that Citicorp and Continental comply with contract deliverables and contract performance standards?

In addition to the matters discussed in this report, we issued a companion report (2000-S-66) on the electronic data processing controls for the EBT system on June 27, 2001.

Audit Observations and Conclusions

We found that neither contractor produced all of the contract deliverables or regularly met performance standards. As a result, the EBT system is not meeting client expectations, is not providing the level of service to its users that was anticipated, and may be resulting in clients needlessly incurring surcharge fees to access their benefits.

Training is essential for all parties involved in operating and using the EBT system. However, only 10 percent of clients attended in-person training. Contractor training of OTDA and New York City Human Resources Administration, which administers the EBT program in New York City, administrative staff was unsatisfactory. We also found that some clients pay significant surcharges at vendor-owned ATMs to obtain their benefits, over \$1.3 million in January and February of 2000. However, OTDA cannot determine how much clients are paying and where clients pay the highest surcharges. We recommend that OTDA monitor contractor training to ensure clients know the location of surcharge-free ATMs. (See pp. 5-9)

Completing the 36 deliverables specified in Citicorp's contract would appear essential to an efficient roll-out of the EBT system. However, we found that when work temporarily ceased on February 14, 1997 due to a challenge to the award of the contract, only 11 of the 28 deliverables already due had actually been delivered. Some of these 11 deliverables had little content or were not properly approved. Further, OTDA could not readily provide a listing of the names or the qualifications of Citicorp's key EBT system personnel. Since the State is authorizing a private company to operate a critical benefit system, it is essential that OTDA have assurance that these individuals are properly qualified and have no conflicts of interests in performing contract services. (See pp. 11-13)

The contract requires Citicorp's Automated Response Unit (ARU), which provides toll-free customer service, to report monthly on its compliance with performance standards. In analyzing ten months of data, we found that reports were incomplete and that ARU missed the standard for client "hold time" (length of time a client's call is placed on hold) in every month. Although entitled by the contract to assess liquidated damages of \$82,000 against Citicorp for its failure to meet this standard, OTDA did not do so. We recommend that OTDA enforce deliverable requirements, and consider assessing damages to compel contractor compliance. (See pp. 14-15)

We found that Continental was chronically late in submitting required production and compliance reports to OTDA. Further, the reports we reviewed (January and February 2000) showed that card production did not meet standards for 30 of 40 days in that period, resulting in slower customer service and delayed access to benefits. OTDA did assess Continental liquidated damages totaling \$285,000. As with Citicorp, OTDA did not have an organization chart of key Continental personnel. At production sites, the contractor did not properly control inventories of new Cards or undeliverable Cards that are returned by mail. We recommend that OTDA enforce reporting requirements, and strengthen controls over Cards. (See pp. 16-20)

Comments of OTDA Officials

OTDA officials responded that they generally agreed with our recommendations and noted some actions already taken to implement them.

OTDA officials noted that EBT transaction data will ultimately reside in the State Fraud and Abuse Reporting System, and that they will work with the contractor to improve the data as this System is implemented. Regarding fees paid by clients, OTDA officials indicated that the contractor will develop a community-based educational outreach program to effectively communicate with client groups. They also pointed out that, as a result of an investigation by the New York State Attorney General's Office, Citicorp has agreed to resolve the problems of inadequate access to free cash.

Contents

Introduction	Background	1
	Audit Scope, Objectives and Methodology	3
	Response of OTDA Officials to Audit	4
<hr/>		
Implementation Issues	Training	5
	Surcharges and Fees	6
	Recommendations	9
<hr/>		
Contract Management	Citicorp Contract Deliverables	11
	Citicorp Performance	14
	Recommendations	15
	Continental Contract Deliverables	16
	Continental Performance	17
	Recommendations	20
<hr/>		
Appendix A	Major Contributors to This Report	
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Appendix B	Comments of Office of Temporary and Disability Assistance Officials	

Introduction

Background

The Office of Temporary and Disability Assistance (OTDA) is responsible for the oversight of various temporary assistance payment programs (e.g., Temporary Assistance to Needy Families or TANF), as well as for the administration of the United States Department of Agriculture's Food Stamps program and other benefit programs. In 1996, the Federal Government advised all states participating in the food stamps and other Federal benefit programs of the expectation that all Federal payments would be paid by electronic means by the year 2002. Nationally, the largest Electronic Benefit Transfer (EBT) program is food stamps, with more than 10 million participants and annual transactions of more than \$22 billion.

Most states have developed, or are developing, EBT programs. New York State participates in the Northeast Coalition of States (NCS), a group of seven states (New York, Rhode Island, Vermont, New Hampshire, Connecticut, Maine and Massachusetts) that have contracted with Citicorp Services, Inc. (Citicorp) to operate their EBT systems. NCS is one of several coalitions of states throughout the country that bid for EBT services jointly in order to increase the volume of services needed and obtain a lower bid from the contractor. NCS sets overall contract terms to conform to its member states' requirements, and also has a role in approving certain contract deliverables. However, each member state contracted individually with Citicorp for EBT services.

OTDA manages and monitors the State's contract with Citicorp for the development and implementation of the EBT system. The EBT contract with Citicorp establishes performance criteria for the program and identifies 36 contract deliverables. The deliverables are documents (such as detailed design plans and training plans) which Citicorp or its subcontractors (Deluxe Data Systems and Lockheed-Martin) must supply to OTDA as part of the implementation process. In addition, Citicorp maintains a toll-free help line, with an Automated Response Unit (responds to touch tone entries) and a customer support staff to provide essential EBT-related services, such as answering questions from clients and merchants and processing requests for changes in clients' personal identification numbers.

The Citicorp contract was signed in March of 1996, and approved by the State Comptroller in September 1996. However, a legal challenge of the award to Citicorp ensued and Citicorp was ordered to stop work on February 14, 1997. This delayed the development and implementation of the program until the legal challenge was resolved and the award was upheld on December 4, 1997. Citicorp and its subcontractors converted all New York City boroughs to the EBT system starting in early 1999. According to OTDA officials, conversion efforts outside New York City were delayed because the agency had to

commit resources to complete Year 2000 projects. By February 2001 Citicorp had converted Long Island and the upstate counties to the system.

In June 1995, OTDA contracted separately with Continental Currency Services (Continental) to provide the Common Benefit Identification Cards (Card) clients use to access their EBT benefits. Cards are produced at the request of the county or City social services district. The client either receives the Card by mail or picks it up at one of the contractor's two over-the-counter production sites in New York City. The terms of the contract require that Continental report to OTDA on various aspects of Card production and delivery so that OTDA can monitor the contractor's performance. Continental subcontracts the production of Cards and operation of the sites to Transactive Corporation (Transactive).

The EBT system lets clients use the magnetically encoded Card like a bank card to withdraw funds from their "cash account" (public assistance payments) at Automated Teller Machines (ATMs). They can also purchase food with the Card by accessing funds in their "food stamp account" at Point-Of-Sale (POS) terminals where food stamps are accepted. Clients can also obtain funds from their "cash account" at many of these POS locations. Prior to the EBT system, clients obtained their public assistance cash benefits and food stamps from third party providers upon presentment of their benefit cards. In New York City, clients received their benefits from check cashing establishments located throughout the city. Throughout the rest of the State, benefits were distributed at locations such as supermarket courtesy counters. The State paid these establishments to distribute these benefits to clients. With the EBT system, the State's per-client costs of benefit distribution are significantly lower than they were under the prior system.

OTDA's EBT Project Team oversees the implementation of the EBT system throughout the State and manages current contracts with Citicorp and Continental. The Project Team receives and reviews contract deliverables and evaluates contractors' performance. The New York City Human Resources Administration (HRA) administers the EBT program in New York City. New York City clients apply for benefits at local HRA income support/job centers, where they receive basic instruction on the use of the Card and the EBT system. In the month of December 1999, food stamp benefits totaling \$83 million were deposited in 493,845 EBT food stamp accounts for New York City clients. For the same period, public assistance benefits totaling \$77.6 million were deposited in 252,896 client cash accounts in New York City.

In addition to the matters discussed in this report, we issued a companion report (2000-S-66) on the electronic data processing controls for the EBT system on June 27, 2001.

Audit Scope, Objectives and Methodology

We audited OTDA's EBT system implementation and oversight for the period March 28, 1996 to July 5, 2000. The objectives of our performance audit were to determine whether the EBT system is being implemented effectively and whether OTDA's contract management has been effective in ensuring that Citicorp and Continental comply with contract deliverables and contract performance standards. Since New York City was the only area in the State where the EBT system was operational during our audit period, we limited our audit of system implementation to New York City.

To accomplish our audit objectives, we interviewed OTDA, HRA, contractor and subcontractor officials. We also reviewed laws, rules, regulations related to EBT operations, reviewed contracts and documents provided to OTDA by the contractors, and visited card production facilities in New York City. We also obtained EBT data transaction files from OTDA and analyzed these files using computer-assisted audit techniques.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those OTDA operations included in our audit scope. Further, these standards require that we understand OTDA's internal control structure and compliance with those laws, rules, and regulations that are relevant to our audit scope. An audit includes examining, on test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach when selecting activities to be audited. This approach focuses audit efforts on operations that have been identified through a preliminary survey as having the greatest possibility for needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, little audit effort is devoted to reviewing operations that may be relatively efficient and effective. As a result, our audit reports are prepared on an "exception basis." This report, therefore, highlights areas needing improvement and does not address activities that may be functioning properly.

Response of OTDA Officials to Audit

We provided a draft copy of this report to OTDA officials for their review and comment. Their comments have been considered in preparing this report and are included as Appendix B. Where appropriate, we have revised the report to reflect comments made in OTDA's response.

OTDA officials responded that they generally agreed with our recommendations and noted some actions already taken to implement them. OTDA officials noted that EBT transaction data will ultimately reside in the State Fraud and Abuse Reporting System, and that they will work with the contractor to improve the data as this System is implemented. Regarding fees paid by clients, OTDA officials indicated that the contractor will develop a community-based educational outreach program to effectively communicate with client groups. They also pointed out that Citicorp has entered into a consent order to improve access to surcharge-free cash.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the New York State Office of Temporary and Disability Assistance shall report to the Governor, the State Comptroller and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

Implementation Issues

Implementing the EBT system effectively and efficiently requires that those using the system – OTDA and HRA personnel, merchants and clients – all understand how the system is supposed to work. Learning how the system works requires training. OTDA had to redo training it had paid a Citicorp-hired consultant to deliver to its administrative staff, and a survey showed that about half the EBT retailers received no training. We also found that clients in some cases pay significant bank surcharges for ATM transactions, reducing their assistance benefits, because they may not know which ATMs provide surcharge-free withdrawals. However, OTDA efforts to monitor EBT system operations, including the assessment of bank charges and the identification clients who pay them most often, are limited by the inadequacy of its existing data analysis system.

Training

The EBT contract requires that training be provided to benefit recipients, retailers, OTDA employees, HRA employees and Citicorp's ARU employees. Lockheed-Martin (Lockheed), a subcontractor of Citicorp, was to provide training to recipients and retailers, while Citicorp was supposed to provide the administrative training. Elements inherent in most successful training programs include outreach, and training quality. However, we found deficiencies in the EBT training with regard to each of these areas.

To maximize attendance and allow each potential trainee a fair opportunity to attend, the training must be publicized with adequate notice, and any notices should contain accurate and complete information. The training subcontractor sent out letters, on HRA letterhead to clients two weeks prior to the beginning of EBT service in each borough. These letters, provided basic information as to when EBT would begin in the borough, and available training (including an 800 number to call for on-the-phone training), and were accompanied by an information card and brochure on how EBT works.

The letters to clients in Staten Island did not provide specific information on where and when walk-in training would be available, instead clients had to call for this information. Letters to clients in Manhattan provided information on the location, but not dates or times. Letters to clients in the Bronx and Queens did not provide the times.

In total, 54,967 clients in the five boroughs, or only 10 percent of the total client population, attended in-person training. OTDA officials indicated that some clients may have attended kick-off open houses held in each borough, primarily for agency personnel and advocacy group staff. Clients attending these

sessions may not have been counted. OTDA officials also indicated that 16.9 percent of the households requested training by phone.

Lockheed was also supposed to provide EBT-related training to retailers at ATM and POS locations. However, surveys of 107 ATM locations and 437 POS locations performed by OTDA's Bureau of Audit and Quality Control found that only 56 percent of the ATM sites and 45 percent of the POS sites surveyed received EBT training.

Citicorp, which was engaged to train administrative staff, hired a consultant to deliver the training course. However, because OTDA found the consultant's performance to be unsatisfactory, OTDA had to develop and present additional training on its own, incurring increased costs as a result. Although we asked OTDA for the full cost of this training (the amount OTDA paid the consultant for the week of training he conducted plus the total cost for OTDA staff to present the training) during our audit, OTDA has not given us this information. OTDA should identify and recover any excess costs from Citicorp.

Surcharges and Fees

Before EBT, clients picked up their public assistance cash benefits at the same location, twice a month. In New York City, a network of check cashing facilities made these payments. The State paid the fees charged by the check cashing facility, and clients received their entire cash benefit. Ideally, the EBT system still lets clients access all their benefits fee-free and pays Citicorp a fixed monthly fee to make these benefits readily available. The first four ATM transactions are free to clients each month, with an 85-cent fee for each transaction above that limit. Participating ATMs do not assess bank surcharges (typically between one and two dollars) for client benefit transactions. Cash benefits can also be withdrawn fee-free at many of the grocery stores which accepted EBT food stamp benefits. Under the contract, Citicorp prepared a cash access plan, designed to show that adequate access to cash was available in each zip code. Where there were not enough participating ATM facilities, the contractor had to install additional ATMs.

However, because the EBT system works through the national banking network, cash is also available through vendor-owned ATMs which are not part of Citicorp's surcharge-free network. ATM owners are permitted to deduct the standard cash-transaction surcharge from the client's account. For example, if a client withdraws \$40 in cash benefits at an ATM charging a fee of \$2, the client's benefit account is charged \$42. Many of the payment facilities the clients used in the old distribution system have put in ATMs which assess these surcharges for transactions.

To determine the extent to which clients are paying surcharges, we obtained two months (January and February 2000, the latest available at the time of our

review) of EBT transaction data from files Citicorp provides to OTDA and analyzed it using computer-assisted auditing techniques. Our analysis showed that, despite the availability of fee-free cash, clients are incurring significant surcharges and fees. The estimated total fees and surcharges paid in January and February were \$647,087 and \$700,151, respectively. Check cashing locations accounted for more fees than any other locations. In our test period, nearly 5,125 surcharges were collected by a single check cashing facility in the Bronx. OTDA EBT managers were impressed with our auditors' computer-aided analysis of transaction data, which involved quickly analyzing millions of transactions and identifying those with specific characteristics. These managers said they intended to obtain the same audit software so they could do such analyses on a regular basis.

We discussed the issue of client surcharges with OTDA EBT project staff. They told us that clients may be using the same facilities out of habit, or because they offer other financial services, such as utility bill payments and money order sales. OTDA staff believe these charges will decrease when clients get accustomed to the system. While we agree that force of habit and convenience may influence some clients' behavior, we also believe that inadequate training about the system and the location of surcharge-free ATMs could explain the relatively high surcharges clients pay in proportion to their withdrawals. Clients would benefit from OTDA information that identified the surcharge-free ATMs nearest them and that reinforced the impact on their benefits of making numerous withdrawals and using out-of-network ATMs. In response to our preliminary finding, OTDA staff indicated that they mailed information about surcharges and fees to recipients as part of their initial mailings, and have followed up with a targeted mailing in the Fall of 2000. This latter mailing includes a listing of POS locations offering surcharge-free cash withdrawals. They also noted that the rate of surcharges has dropped over 14 percent from its monthly high in July 1999.

Citicorp transfers transaction data daily to OTDA for eventual use in the State Fraud and Abuse Reporting System (SFARS), which had not yet been developed at the time of our audit. We found inadequacies in the data transferred by Citicorp, making it difficult for OTDA to determine the amounts of the bank charges clients pay, and the geographic areas where these charges are highest. For each transaction, Citicorp captures and separates cash benefits, surcharge amounts and fee amounts. However, because the file Citicorp sends to OTDA does not separate fees from the total transaction amount, OTDA staff do not have ready access to the segregated data they need to analyze the charges clients are paying to obtain their benefits. OTDA staff is able to perform some analysis of this data using other computer software.

Efforts to use SFARS data for analytical purposes are also hampered by data integrity problems. According to accepted control objectives for information processing, transaction data entered for processing should be subject to a variety of controls to check for accuracy, completeness and validity. However, we found that SFARS data is both incomplete and inaccurate. For example, in analyzing the January and February 2000 daily transaction data OTDA had received from Citicorp, we found that six days of transaction data were missing. Citicorp had transferred this data, but errors in OTDA's system resulted in the data being lost. OTDA officials indicated that they did not request that Citicorp resend the data because SFARS was not yet operational. Our computer-aided analysis of the transaction data available for January and February (approximately 9.4 million records) revealed the following information gaps:

- ! There were no zip codes entered for any of the records; all zip code fields were left blank.
- ! The merchant name field was blank in 2,213,775 transaction records.
- ! Terminal address fields were blank for 29,526 of the records.
- ! In 495,085 of the cases the completed amount was greater than the requested amount. (Currently, this is the only indication OTDA has that a fee may have been charged).

Without complete information about these transactions, OTDA is not achieving essential control objectives. But more importantly, OTDA cannot effectively analyze activity and monitor operations. For example, Citicorp's cash access plan was designed to show adequate access to cash and benefits by zip code. If transaction records showed zip code data, along with other information needed to identify each transaction, OTDA could identify the geographic areas where clients paid the highest bank charges and the specific locations where those charges were incurred. OTDA could then use this information to verify the adequacy of Citicorp's cash access plan and to target clients who paid high surcharges for additional training. (In response to our preliminary finding, OTDA staff indicated that the merchant name, terminal address, and zip code fields are not part of the International Organization for Standardization standard for bank card transaction data. As such, the merchant/processor can enter them optionally, and Citicorp can only provide whatever is received in the field, "as is.")

We also found that SFARS data was not always accurate. For example, there were 12 different entries for "New York" in the January 2000 SFARS file, ranging from the correct spelling to "New Yori," "NY" and "New Your," and

five versions of “Brooklyn.” We also noted a number of coding errors, blanks and data formatting errors.

SFARS was supposed to have been developed, tested and completely operational in time to permit an evaluation of its effectiveness during the New York State pilot period. We conclude that SFARS data must be significantly improved so that OTDA can use it to achieve practical operational objectives, like minimizing the charges clients pay to get their benefits, as well as control objectives, like monitoring how the system is functioning and flagging potentially fraudulent transactions. OTDA and Citicorp must work together to improve SFARS’ data analysis capability and to ensure the integrity and completeness of SFARS information. As the EBT system has been implemented statewide, such efforts need to be completed as soon as possible.

Recommendations

1. Improve contractor training performance by:
 - ! Obtaining regular documentation of Citicorp’s training efforts, including its program for ARU employees, and reviewing it for accuracy; and
 - ! Accurately describing and sufficiently publicizing future client training sessions.

Recommendations (Cont'd)

2. Calculate, and attempt to recoup, any additional costs OTDA incurred as a result of Citicorp's failure to provide adequate administrative training.
3. Reconcile SFARS data to daily transaction reports to ensure OTDA receives all the data Citicorp transmitted. Request re-transmission, or backup copies where transmission errors or system errors result in lost data.
4. Work with Citicorp to improve SFARS data so that it separates surcharge and fee information and provides complete transaction detail data, such as zip code and merchant information.
5. Provide additional training or specific information to clients about where they can access their benefits in their areas without a surcharge.
6. Incorporate edit checks into the SFARS to capture transaction data errors such as blanks or inconsistent spellings, coding errors, and data formatting problems.

(Regarding Recommendation 1, OTDA indicated that it will continue to review the training materials. OTDA disagreed with Recommendation 2, claiming these costs were appropriately reimbursable because administrative training was an optional services provision of the contract. However, administrative staff training is listed as a Core Contract Service in Appendix C, Section 1.2.4.4 of the contract with Citicorp. We believe OTDA should reconsider this matter. Regarding Recommendations 3, 4 and 6, OTDA indicated that SFARS is not yet operational, but it is working with Citicorp to improve data quality, utility, and completeness. Regarding Recommendation 5, OTDA said recent amendments to the contract will result in an educational and outreach program to assist in educating clients.)

Contract Management

The contracts with Citicorp and Continental specify deliverables. They also define certain performance standards New York State can use to measure and monitor contractors' efficiency and effectiveness in delivering food stamps and assistance benefits to clients. However, we found that neither contractor produced all of the deliverables or regularly met performance standards. This occurred because OTDA did not adequately manage the contracts, with respect to updating deliverable dates, monitoring contractor performance and assessing monetary penalties. As a result of these contract management problems:

- ! the State has less assurance that EBT system implementation is properly approved and adequately documented;
- ! clients must wait longer to resolve service problems and obtain Cards;
- ! OTDA did not have a listing of contractor personnel performing services or their qualifications; and
- ! inventories of new Cards, as well as Cards returned as "undeliverable," are not adequately controlled at the two New York City over-the-counter sites.

Citicorp Contract Deliverables

Appendix F of the State's contract with Citicorp requires the contractor to complete 36 deliverables, such as a project work plan, detailed design documents, retailer agreements, training plans and cash access plans as part of the program start-up and recurring operations. Given the nature of these deliverables - and particularly the plans for training State agency personnel and retailers in using the EBT system - completing such products is essential to an efficient roll-out of the EBT system in New York City and elsewhere in the State. Further, these deliverables were established in the EBT contract as milestones and monitoring tools for assessment of the system's operation. Thus, it is essential that they meet criteria for timeliness, content and approvals, as stated in the contract.

- ! **Timeliness:** The contract states that the "Contracting State Agency and Contractor agree that time is of the essence in the Contractor's performance hereunder." Therefore, a specific time frame (e.g., six months after the contract start date) was attributed to 31 of 36 deliverables. The remaining 5 state no due date.

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- ! Content: The contract specified the required content of each deliverable to be submitted.
 - ! Approvals: The contract required that certain deliverables be approved by the State and/or Federal Government and/or the Northeast Coalition of States.

We examined the on-time performance for meeting the 36 deliverables as of February 14, 1997, the date work stopped due to a challenge to the award of the contract. Eight could not be evaluated for on-time performance (five had no due dates, two were not yet due, and one was delivered/updated periodically). The remaining 28 deliverables were due on or before February 14, 1997. We found that Citicorp had provided only 11 of the 28 deliverables to OTDA as of that date (six were on time, and five were late). The remaining 17 deliverables were overdue. The Draft State Operations Manual and the Final Cash Access Plan were among the overdue deliverables.

OTDA did not request Citicorp to provide a revised workplan when work resumed after the court ruling on December 4, 1997. As a result, there was no effective means to measure the contractor's performance.

We examined the 29 deliverable documents received by OTDA as of July 1, 2000. We found that eight of them did not appear to fulfill the "content" criterion established by the contract. Further, of the 29 deliverables received, 13 required approval according to the contract but did not contain such approvals. (Four other deliverables which required approval had not yet been delivered.) Eleven of the 13 deliverables specifically required State approval; nine required Federal approval and two required NCS Regional Management Council approval.

Citicorp contracted to provide the deliverables within the required timeframes. However, OTDA's approach to contract management may have contributed to this problem. OTDA officials told us that they did not seek to amend *Appendix F* of the contract to reflect the impact of the litigation on the deliverable dates, or set new dates in any formal manner. By not extending the due dates for deliverables, OTDA lost the ability to enforce reasonable deadlines.

The absence of a complete set of deliverables, provided in accordance with the contract's terms, limited OTDA's ability to ensure the quality, efficiency and effectiveness of the project. Further, there is a risk that deliverables that were not approved, as required, may not include useful or even critical input

from interested parties or conform to performance standards defined in the contracts. Moreover, acceptance of contractor deliverables that do not meet established criteria implies OTDA's approval of these deliverables. As a result, OTDA may have diminished its ability for recourse in the event the system fails or does not achieve its objectives.

In order to properly manage the contract, OTDA should know the identity of key personnel the contractor is using to implement the EBT system. Since the State is authorizing a private company to operate a critical benefit system, it is essential that OTDA have assurance that these individuals are properly qualified and have no conflicts of interests in performing contract services. It is also important that OTDA be able to contact the appropriate person should there be an operational question or problem. Accordingly, a contract provision establishes that key personnel will not be changed without specific permission from OTDA.

However, OTDA could not readily provide a current listing of Citicorp key personnel in response to our February 9, 2000 request, and obtained a revised organization chart for us from Citicorp. Our review of this chart determined that most of the employees listed did not match those listed in *Appendix B*. Likewise, for 25 of the 31 Citicorp and subcontractor employees listed on *Appendix B*, there were no employees with corresponding titles listed on the organization chart. For example, the title of "Citicorp Technical Director" appeared in *Appendix B*, but was absent from the organization charts. (*Appendix B* also contained the names of two people employed by a subcontractor Citicorp does not use.)

We then asked OTDA officials for the resumes, qualifications of the employees on the current list and the written permission Citicorp should have submitted to make personnel changes. OTDA did not provide us with such documentation. We believe the contractor's noncompliance with this contract provision is attributable, in part, to OTDA's inadequate contract management. Without knowing the identity of the contractor's key personnel, OTDA cannot readily contact responsible personnel to address operational issues. Further, should such replacement personnel not be properly qualified for work on the EBT project, these unauthorized changes could jeopardize the system's overall efficiency and effectiveness.

Citicorp Performance

Citicorp's help line and Automated Response Unit (ARU) provide essential services, such as responding to questions from both EBT clients and merchants, as well as processing personal identification number change requests. Clients and merchants are directed to call a toll-free number for assistance. These calls are routed to one of Citicorp's ARU offices in Dallas, Texas; Memphis, Tennessee; and Tampa, Florida. According to OTDA's contract with Citicorp, ARU services must meet a total of ten performance standards. Citicorp is subject to liquidated damages if it fails to meet (all of some) of these performance standards, which include those listed below:

- ! 85 percent of calls must be answered in less than 25 seconds (5 rings);
- ! average answer time must be less than 15 seconds (3 rings);
- ! no more than 10 percent of calls can receive a busy signal;
- ! 95 percent of calls put on hold must be put on hold less than 30 seconds; and
- ! the abandoned call rate (hang-up before being serviced) must be less than 3 percent.

The contract requires Citicorp to report monthly to OTDA on the ARU's performance in each of the ten service delivery areas. We analyzed data for ten monthly ARU performance reports (June 1999 - March 2000) and determined that, in each month, the ARU did not meet one or more of the performance standards. The most material noncompliance was for recipient hold time; the 95 percent requirement for this standard was missed in every month. In fact, the ARU exceeded 90 percent in only 2 of the 10 months sampled. In addition, elements were omitted from all ten monthly reports. Where there should have been 100 entries over the 10 months (10 entries per month x 10 months), there were only 74 entries. Further, the reports did not contain any information with regard to merchant hold time.

The primary responsibility for compliance rests with the contractor. However, OTDA did not adequately review the Citicorp performance reports for

compliance with the contract, or evaluate Citicorp's efforts to correct the problems. As a result, EBT recipients and merchants did not receive prompt customer service. This feature is especially critical during the program's initial implementation months, since clients may not know how to properly access their benefits. Further, although OTDA was entitled to apply a 1 percent charge for liquidated damages (estimated at over \$82,000) against the contractor for not meeting these standards, OTDA did not assess these damages. In response to our preliminary finding, OTDA indicated that it believes that "assessing liquidated damages would be counter-productive in continuing to improve the performance criteria. However, the Department will notify the contractor that we reserve our right to assess liquidated damages if ARU performance remains substandard."

Recommendations

7. Act to ensure Citicorp provides contract deliverables that meet specified criteria by:
 - ! examining the remaining deliverables and revising due dates, as necessary;
 - ! rejecting any deliverables that do not comply with content requirements, pending any needed modification; and
 - ! obtaining documented approval from appropriate OTDA officials on all contract deliverables, and documented third party approvals where specified in the contract.
8. Update *Appendix B* so that it identifies the key EBT project personnel, and their titles. Obtain and review qualifications and resumes of these personnel.
9. Review, and test the accuracy of, performance reports submitted by Citicorp.

Recommendations (Cont'd)

10. Require Citicorp to notify OTDA timely, and in writing, of any changes in key personnel involved with the EBT project. Approve the changes in writing as required by the contract.
11. Consider using the remedies available under the contract, such as assessment of liquidated damages, in the event of Citicorp's noncompliance with performance standards.

(OTDA agreed with Recommendations 7-11, and indicated steps being taken to implement them.)

Continental Contract Deliverables

New York State is responsible for producing the Cards food stamp and public assistance clients use to access their benefits. Continental performs this function under contract with the State, and subcontracts both the production of Cards and the operation of two over-the-counter (OTC) production and issuance sites (one in Manhattan and one in Brooklyn) to Transactive Corporation. After a Card is requested by the county or City social services district, the client either gets the Card by mail or picks it up at one of the OTC sites. New York City's HRA has staff at these two sites mainly to facilitate the clients' selection of Personal Identification Numbers (PIN). Only the primary Card holder in a family (or designated person for homebound clients) can access EBT benefits.

The Card contract requires Continental to prepare and deliver reports to monitor card production, compliance, mail-return and system down time. However, we found that the Card contractor has been chronically late in providing required reports to OTDA.

For example, we requested reports which show the numbers of Cards mailed to clients but returned as undeliverable. These reports are essential because, if such Cards are not properly accounted for and destroyed, they could be lost or stolen. However, we found that Continental produced the required reports only sporadically. When we asked on May 19, 2000 to see the Daily Detailed Mail Return Reports, OTDA staff indicated that the most recent such report from the contractor was one dated January 6, 2000. Moreover, when we examined existing Daily Reports for January 1 through January 6, 2000, we found they contained no information about returned mail. Further, we found that Continental had not produced Weekly and Monthly Returned Mail Reports since late 1999. We also found that Continental was more than two months

late in issuing required compliance reports, and more than a month late in issuing required production reports. As a result of the contractor's noncompliance with contract reporting requirements, OTDA cannot adequately control Card mail-returns, monitor contractor compliance or measure contractor production efficiency.

OTDA managers told us they have met with Continental representatives and complained about the lateness of these reports (as confirmed by our review of meeting agendas), but that the contractor has not improved. This lack of improvement may be due to the fact that the contract lacks a liquidated damages provision OTDA could use to force contractor compliance. Without such a provision, the contractor has no compelling reason to comply with the reporting requirements in a timely way.

We also found that, as was the case with Citicorp, the Card contract stipulates that Continental should provide OTDA with a current organizational chart showing key personnel. OTDA had no such chart. As a result, OTDA does not know the qualifications and background of the persons responsible for producing and issuing Cards, and the appropriate personnel to contact to resolve questions or operational problems.

Continental Performance

The Card contract contains performance standards which specify that, at each OTC site, no less than 90 percent of on-line OTC cards will be produced and ready for OTC delivery within one hour of the client's arrival and/or the receipt of data needed to produce the Card, whichever is later. The contract allows OTDA to charge the contractor damages of \$500 times each percentage point (or fraction) below 90 percent for each day of noncompliance.

Our review of Card production compliance reports for January and February 2000 showed that 30 of the 40 days of OTC production during this period were not in compliance with the 90 percent requirement. Noncompliance ranged from 66 percent on January 26, 2000 to 89 percent on January 4, 2000. As a result, client service suffered, with clients waiting longer than should have been necessary to obtain Cards and related service. OTDA managers believe the delays (when targets are missed) may be due to problems with the contractor's computer system. However, the compliance reports do not state any reasons for delays.

Since there is a provision in the Card contract that allows OTDA to assess money damages for performance shortfalls, the agency should be able to use it to leverage performance improvements. For example, based on the damages provision, OTDA was eligible to assess a total of \$118,000 in liquidated

damages from the contractor for noncompliance with the required performance standards during January and February 2000. Agency personnel cited difficulty in assessing damages because it would make the contractor/agency relationship difficult. In fact, we found that OTDA asked the contractor to pay liquidated damages in only one instance during our scope period: OTDA assessed damages of \$87,500 for a three-day period in May 1999. In response to our preliminary findings, OTDA indicated that it has assessed an additional \$197,500 in liquidated damages on this contract through October 2000, including \$77,500 for two dates during the January/February 2000 period. OTDA added that it reviews each instance of contractor failure within the context of overall performance and reasonableness. OTDA further stated that it must examine the reasons for each instance before assessing damages, but will do so when it believes access to benefits has been impaired.

Continental's subcontractor produces and issues Cards at the two OTC sites in New York City. Because these cards represent access to significant benefits, they must be safeguarded. Since Continental assumes responsibility for creating and distributing the Cards at sites it operates through its subcontractor, they must take steps to prevent the cards from being lost, stolen or improperly used. OSC and State accounting guidelines indicate that proper control over assets involves establishing their physical security, taking regular physical inventories and ensuring that persons who authorize transactions do not have physical custody of assets.

During a visit to the Manhattan OTC site on April 12, 2000, we found that the door to the card production room was left wide open because of faulty air conditioning. Outside the room is a common area used by HRA employees. Since HRA employees have access to the Card production room, they could obtain physical custody of Cards. Since they assign PIN numbers, this access gives employees the ability to withdraw funds intended for public assistance recipients. When a standard control device – such as a locked door – is not possible or practical, managers should establish a compensating control to secure assets. In this case, the contractor should have installed a locking screen door or stationed a guard at the open door to maintain adequate control over the Cards. During our November 20, 2000 closing conference, OTDA officials claimed that the air conditioning, which had been a problem since the summer of 1999, had been fixed subsequent to our last visit. They therefore, requested that we return to re-inspect this condition. However, when we returned to the site on November 29, 2000 we found that the door was, in fact, open.

OSC and State accounting guidelines suggest conducting periodic physical inventories of assets and checking counts against inventory records to ensure the accuracy and integrity of recorded information. During our visits to the two OTC sites in April 2000, we found that the contractor counted cards periodically and kept records of card balances. However, we found that contractor staff did not compare the physical counts with the recorded balances. Apparently, neither OTDA nor contractor staff were aware of the merits of such controls. As a result, during the time comparisons were not made, there might have been variations between recorded and actual card inventory counts. We were advised that OTDA met with the Card contractor and that they have developed a system in which physical counts are compared with recorded balances.

HRA OTC employees have access to machines that activate Cards by assigning clients Personal Identification Numbers (PINs). Cards are then usable at ATMs and POS machines. Therefore, it is essential that these employees do not obtain access to Cards. However, nearly 6 percent of Cards mailed are returned to the vendor as undeliverable. Currently returned cards are supposed to be accounted for by the contractor, reported to OTDA and the county or City social services district and destroyed. During this same April 2000 visit, however, we saw piles of Cards (hundreds of pieces of unprocessed mail-returns as well as defective Cards) at both OTC sites. The Cards, which are still valid until they are destroyed, are assets and should be adequately secured, properly accounted for and promptly destroyed to avoid their loss or misuse by employees who can assign new PIN numbers to Cards.

Recommendations

12. Take appropriate action to ensure Continental complies with existing reporting requirements in a timely way.
13. Obtain a current organizational chart of Continental and subcontractor employees and ensure that appropriate background checks have been performed.
14. Work with Continental and its subcontractor to establish a system of internal control over Cards at OTC sites which:
 - ! Limits access to the Card production room to authorized personnel. Correct air conditioning problems as soon as possible.
 - ! Continues to compare physical inventory counts to recorded inventory balances. Have OTDA personnel independent of Card custody perform unannounced inventory counts to ensure the integrity of the recorded information.
 - ! Complies with existing guidelines for handling undeliverable Cards. Consider validating client addresses before mailing cards to reduce the amount of mail returned as undeliverable.

(OTDA agreed with Recommendations 12-14, and indicated steps being taken to implement them. OTDA added that it has been working to improve contractor performance regarding contract deliverables, and has required the contractor to immediately improve card inventory procedures.)

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Brian J. Wing
Commissioner

May 16, 2001

Re: **Draft Audit Report: Electronic Benefit Transfer System (99-S-51)**

Dear Mr. Challice:

We have reviewed the referenced report. Before commenting on specific recommendations, we note that the report lacks a substantial amount of background material which would give the reader a much better perspective of the implementation of an Electronic Benefit Transfer (EBT) system in New York (NY) State and in other states throughout the country.

The Foundation for a Uniform EBT Operating Environment:

The Northeast Coalition of States (NCS) joined in sharing the vision for and procuring a streamlined, cost-effective regional EBT system. This common procurement also took maximum advantage of economy of scale purchasing that accrued and facilitated uniformity and compatibility among the products and services purchased by the NCS. The 1995 procurement not only represented the joint effort of the NCS, but also reflected the efforts of the Federal EBT Task Force, the Department of Treasury's Financial Management Service, the Food and Nutrition Service (FNS) of the U.S. Department of Agriculture, and the Department of Health and Human Services Administration for Children and Families to meet the goal of a national EBT system. The services established under the procurement were provided to the NCS based on a standard commercial infrastructure foundation.

The foundation is comprised of organizational and operational building blocks including nationwide EBT Quest® Rules that facilitate a seamless operating environment for national EBT issuers and transaction acquirers. The Standard Financial Core represents the requirements that ensured common functionality among contractors that provided standards of service and access to the states and recipients of state and federal benefits, including the food stamp merchant community.

In support of a National Configuration, the "Report of the National Performance Review from Red Tape to Results" issued in 1993 called for the rapid development of a nationwide system to deliver government benefits electronically. The goal was to make EBT nationwide by delivering multiple benefits on one card to those recipients who cannot be reached through means of direct deposit. New York and the Office of Temporary and Disability Assistance (OTDA) have met this goal by providing recipients with a statewide common benefit card for access to TANF, food stamps, and medicaid benefits. The most recent completion of this statewide access was demonstrated with the final rollout of all NY upstate districts (57 counties) within a four-month period ending February 9, 2001.

"providing temporary assistance for permanent change"

Appendix B

It also should be noted that through partnership with the NCS, the measure of interoperability was increased to NY recipients who live near NCS border states, as well as near the borders of Pennsylvania and New Jersey. This affords the ability for NY recipients to shop at access points identified by the Quest® mark within these various states.

Finally, the benefit security mark (Quest®) is provided by and displayed among all NY certified endpoints. It denotes conformance with a specified set of operating rules and provides recipients with a means of identifying where they may use their Common Benefit Identification Card (CBIC) to access benefits (i.e. at any POS or ATM location that agrees to capture transactions associated with the Quest® mark). It was the intent of the NCS to develop and provide a system that enables recipients to have their transactions processed by retailers, third party processors, and networks using in-place equipment that service other commercial credit and debit card holders.

We have the following comments on the recommendations:

1. Recommendation: Improve contractor training performance by:

- Obtaining regular documentation of Citicorp's training efforts, including its program for Automated Response Unit (ARU) employees, and reviewing it for accuracy; and
- Accurately describe and sufficiently publicize future client training sessions.

Response: The Office of State Comptroller's (OSC) findings and their resultant recommendation appear to be based on an incomplete analysis and understanding of the efforts employed by OTDA to ensure clients received EBT training. The OTDA has consistently required Citicorp and Lockheed Martin IMS to provide training documentation in a timely manner, and will continue to review and approve such documentation prior to distribution or mailing to NY recipients. Furthermore, the contract will be reviewed by OTDA to engage Citicorp in conducting surveys of recipient and administrative training performed by Citicorp or their subcontractor(s). In addition, future client training sessions will be monitored and publicized in a consistent manner to allow for sufficient notification to NY recipients.

This recommendation is based on the auditors' review of letters and training materials mailed to EBT recipients providing them with required information. There appears to be no weight given to the fact that the OTDA convened a Commissioner's EBT Advisory Committee comprised of advocacy organizations, to develop New York State's printed EBT training/informational materials. These materials included the recipient EBT brochure, the EBT card cover and all mailers produced for NY recipients. The materials were designed to make them more readily understood by individuals with limited language skills. We developed and revised our training materials and strategies based on the experiences of other NCS states, as well as from feedback we gained during the New York City (NYC) rollout.

The audit findings suggest that only 10 percent of the total recipient population received or attended training. This finding appears to have been based solely on comparing the total number of recipients that appeared for training at each of the walk-in training sites and NYC centers. The EBT training efforts were in fact much broader in nature. In New York City alone, training materials were mailed by Lockheed Martin IMS to a total of 536,664 households. Out of that total base, 16.9% received training directly from operators servicing the recipient training telephone help line; 7.1% received direct training from NYC based mobile trainers in NYC Job Centers and food stamp offices; and 2.9% received training in NYC-based walk-in training sites located in each borough, resulting in approximately 27% of the total base population receiving person-to-person training.

Moreover, all of the effort was part of a three tiered recipient training strategy: 100% of the caseload received training material and instructions (co-authored by advocates) by mail; 100% of the caseload was offered walk-in and mobile training (2.9% + 7.1% = 10%) of whom took advantage of it; and 100% of the caseload was offered toll-free telephone training (16.9% of whom took advantage of this service offered through February 2000).

2. **Recommendation: Calculate, and attempt to recoup any additional costs OTDA incurred as a result of Citicorp's failure to provide adequate administrative training.**

Response: We disagree with the auditors' conclusion. The request for Citicorp to provide administrative training during the preparation for NYC EBT implementation was based on the optional services provision allowed under the contract. Citicorp provided the OTDA with a trainer in an attempt to provide NYC Job Center and food stamp offices staff with training on the EBT Administrative Inquiry System and the related process of recipient benefit and card issuance.

After several days of training by the Citicorp trainer, EBT project staff and NYC Human Resources Administration (HRA) project management staff determined that the trainer was providing adequate training in the basic instructions required for the Administrative Inquiry System. However, it also was determined that the trainer was inadequate in responding to questions and providing adequate information specific to the operational aspects of the NY project to enable NYC staff to implement EBT. Subsequently, EBT project management dismissed the Citicorp trainer and EBT project staff provided the balance of training.

Since the Citicorp trainer obtained the basic skills to deliver and provide the basic instructions required for the Administrative Inquiry System, the OTDA regarded it appropriate for Citicorp to be reimbursed for the services provided during this short period (approximately 3 days).

3. **Recommendation: Reconcile SFARS data to daily transaction reports to ensure SFARS contains all the data Citicorp transmitted. Request re-transmission, or backup copies where transmission errors or system errors result in lost data.**

Response: OSC's recommendation appears to suggest that the Specialized Fraud and Abuse Reporting System (SFARS) is an operating system, which it is not. As we previously explained to OSC audit staff, the production of the initial SFARS file was a preliminary step in developing a full system to be used for the primary purpose of detecting fraudulent activity and abuse of the benefit delivery system. It was not intended as an operations management tool.

SFARS file content and processing were verified when the State began receiving the file. Basic operational oversight was maintained for all files transmitted to the State throughout the audit period, in part, to assure files were received and to follow up on problems and to assure resolution.

During the period audited, project staff were de-bugging a new method of storing files received from Citicorp. It was known and understood that some files would be lost during this period, and corrections were made to improve the process. We agree that re-transmission of error files is warranted, and reconciliation procedures will be instituted to isolate such files.

4. **Recommendation: Work with Citicorp to improve SFARS so that it separates surcharge and fee information and provides complete transaction detail data, such as zip code and merchant information.**

Response: This is another instance in which OSC formulated a recommendation based on outdated and incomplete information. For example, in analyzing the January and February 2000 transaction files, certain days of transaction data were missing. As we noted in our interim comments, many of the data fields in question are not mandated by the International Standard's Organization's (ISO) standard and are not under the direct control of Citicorp. However, project staff have requested that Citicorp begin storing zip codes for retrieval when producing the SFARS file. In addition, the project office has worked with Citicorp to identify specific third party processors (TPP) whose transaction data lacks correct merchant name and address information. The first of these TPP made initial corrections to their systems on March 21, 2001. Overall, project staff have continued to document what the data fields that should be present in the detail record for each transaction type.

Lastly, this recommendation also assumes that SFARS is an operating system. As stated above in #3, it is not an operating system. Revised final changes to the SFARS extract file have been reviewed and approved by OTDA's Office of Audit and Quality Control and were submitted to Citicorp on April 3, 2001. The changes will facilitate surcharge reporting, since the detail records will be transaction-based and the fees and surcharges will be separately identifiable.

The audit findings suggest that the current file is inadequate for analysis and management purposes. We disagree with this assessment. The project office has worked with the data to address a range of issues and have found the data to be extremely useful. We believe the file has a great deal of utility, as evidenced by the fact that some of the audit findings came from the auditors' analysis of the file.

5. **Recommendation: Provide additional training or specific information to clients about where they can access their benefits in their areas without a surcharge.**

Response: Partially implemented. As a result of the signing of the agreements contained in the NY Citicorp Services, Inc. Contract C007589, Amendment 1, the OTDA has requested Citicorp to provide a proposal that will develop and implement community based educational and outreach programs to assist in educating clients about the availability, proper use and security of the Common Benefit Identification Card (CBIC) and Personal Identification Number (PIN). Citicorp will be required to make use of the appropriate community-based organizations, which possess the community relationships necessary to effectively communicate with client groups. All proposed program plans, including any proposed subcontracts with community-based organizations, will require written approval by the OTDA.

It should be noted that when we became aware of the existence of the problem of inadequate free cash access by recipients, we were prohibited from taking any appropriate action to address the problem. The Office of the Attorney General (OAG) directed us not to engage in any discussions with Citicorp regarding contract violations or to seek to resolve with Citicorp any of these concerns and that such disclosure would compromise an investigation being conducted by the OAG. These matters have since been resolved by an agreement and order entered into April 11, 2001.

6. **Recommendation:** Incorporate edit checks into the SFARS to capture transaction data errors such as blanks or inconsistent spellings, coding errors, and data formatting problems.

Response: As noted previously, in #3 above SFARS is not yet a fully operating system. However, we will be requiring Citicorp to address SFARS file anomalies previously documented and reported to Citicorp. We have not believed it prudent to make those changes until the changes are made to restructure the file. In addition, as noted above, it will be the recommendation of the project office that controls and filters be built into the daily processing routines of the full SFARS system in order to ensure the accuracy and usefulness of the stored data. It is worth noting that the project staff provided the filtering techniques the auditors used for determining transaction locations.

7. **Recommendation:** Act to ensure Citicorp provides contract deliverables that meet specified criteria by:

- examining the remaining deliverables and revising due dates, as necessary;
- rejecting any deliverables that do not comply with content requirements, pending any needed modification; and
- obtaining documented approval from appropriate OTDA officials on all contract deliverables, and documented third party approvals where specified in the contract.

Response: Agree. The OTDA will conduct a post implementation review of deliverables. A work plan will be developed to implement a means of ensuring contract deliverables are provided by Citicorp in a complete and acceptable manner. The work plan will include procedures for the resolution of missing and deficient items previously provided by Citicorp.

8. **Recommendation:** Update *Appendix B* so that it identifies the key EBT project personnel, and their titles. Obtain and review qualifications and resumes of these personnel.

Response: Agree. The OTDA will be providing Citicorp with a letter requiring an update to their key project personnel.

9. **Recommendation:** Review, and test the accuracy of, performance reports submitted by Citicorp.

Response: Agree. This recommendation is based on the review of the Automated Response Unit (ARU) performance reports during the period of June 1999 through March 2000. The OTDA receives the ARU monthly reporting data from Citicorp, the only potential viable source, with the data displayed against the specified criteria to demonstrate ARU performance. Final analysis of all performance standards will be identified and any proposed action will be submitted to Citicorp for review and possible implementation to ensure improvements to their systems. The EBT Project Team is working on developing standardized methods for tracking receipt of performance reports and for reviewing and analyzing data provided by Citicorp.

10. **Recommendation:** Require Citicorp to notify OTDA timely, and in writing, of any changes in key personnel involved with the EBT project. Approve the changes in writing as required by the contract.

Response: Agree. The OTDA will be providing Citicorp with a letter reminding them of the contract requirement for timely notification of changes to staff. Approval by OTDA will be required before Citicorp can change/reduce staff assigned to the project.

11. **Recommendation:** Consider using the remedies available under the contract, such as assessment of liquidated damages, in the event of Citicorp's noncompliance with performance standards.

Response: Agree. Among the EBT Project Team's top post-implementation activities is to perform an assessment of compliance with all deliverables and performance standards. Any instances of non-compliance will be addressed as the circumstances and the contract language permits.

12. **Recommendation:** Take appropriate action to ensure Continental complies with existing reporting requirements in a timely way.

Response: Report availability is discussed at each weekly contract status meeting. With the exception of the "Daily and Weekly Returned Mail Reports", Transactive is currently in compliance. Reports are received electronically and receipt of each report is monitored daily. Reporting includes:

Daily card issuance summary report
Daily card issuance detail report
Daily photo and signature processing report
Monthly Over-The-Counter card monitoring report
Monthly Batch Card Issuance Monitoring Report

As of this writing, Transactive has reinstated the transmission of these files and we are testing the process.

13. **Recommendation:** Obtain a current organizational chart of Continental and subcontractor employees and ensure that appropriate background checks have been performed.

Response: The OTDA has always maintained Transactive and Viisage organizational records on file. The current Transactive organizational chart has been delivered to OTDA. We are awaiting an updated organizational chart from Viisage. The original organizational charts for both Transactive and Lau, (Viisage's parent company) are on file. Transactive has agreed to conduct background checks on new employees.

While there are no provisions in the CBIC contract requiring background checks be conducted on Transactive employees, the OTDA has encouraged Transactive to complete background checks.

14. **Recommendation:** Work with Continental and its subcontractor to establish a system of internal control over cards at OTC sites which:

- Limits access to the Card production room to authorized personnel. Correct air conditioning problems as soon as possible.

Response: These matters have been discussed at weekly status meetings. The card print room door has an electronic lock which is still sometimes unlocked. The reason continues to be unreliable air conditioning. The security of the card inventory not used for that day's print cycle is not affected by the unlocked door of the card print room, as an additional locked room beyond the card printing room is the secure storage location.

- Continue to compare physical inventory counts to recorded inventory balances. Have OTDA personnel independent of Card custody perform unannounced inventory counts to ensure the integrity of the recorded information.

Response: This matter was brought to the attention of OTDA personnel during the OSC audit. We immediately required that Transactive institute procedures to correct the problem, which they did. The OTDA plans to keep copies of the inventory forms and to participate in inventory counts.

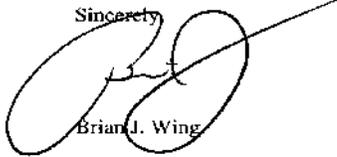
- **Complies with existing guidelines for handling undeliverable Cards. Consider validating client addresses before mailing cards to reduce the amount of mail returned undeliverable.**

Response: Transactive was informed that if the automated system for reporting on returned cards was not soon repaired, a manual mechanism for recording each card and supporting the reporting requirement would be requested. As of this writing, Transactive has reinstated the transmission of these files and we are testing the process.

Validation of client addresses at the card site by Transactive employees is a requirement outside of the scope of the contract. Validation of client addresses is the responsibility of HRA and social service district workers when authorizing cases and requesting cards. The State CBIC-Welfare Management System was modified several years ago in order to allow address correction during card request transactions. A decrease in the number of returned cards has resulted. The industry standard for returned mass mailings is between 3 and 4 percent. The validation of client addresses cannot reduce the returned mail volume to 0%, and therefore the returned mail control system or its manual equivalent must be supported.

Thank you for sharing the report with us and we trust that our comments will be considered and the appropriate changes made to the report prior to its final release.

Sincerely,



Brian J. Wing

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