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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

March 27, 2003

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

Re: Report 2002-F-27

Dear Mr. Wing:

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, we have reviewed the actions taken by officials of the New York State Office of Temporary and Disability Assistance (OTDA) as of January 23, 2003, to implement the recommendations contained in our audit report, *Electronic Benefit Transfer System* (Report 99-S-51), issued on July 26, 2001. Our audit sought to determine whether the Electronic Benefits Transfer (EBT) system is being implemented effectively and whether OTDA is ensuring that its contractors comply with contract deliverables and contract performance standards.

Background

In 1996, the Federal government advised all states participating in the food stamp and other Federal benefit programs that it expected all Federal payments to be made by electronic means by the year 2002. OTDA manages and monitors New York State's contract with Citicorp for the development and implementation of an EBT system. The contract establishes performance criteria and identifies contract-deliverable documents that Citicorp must supply to OTDA. In addition, Citicorp maintains a toll-free help line that employs an Automated Response Unit and a customer support staff to provide essential EBT-related services. OTDA contracted separately with Continental Currency Services (Continental) to provide the Common Benefit Identification Cards (Card) clients use to access their EBT benefits at Automated Teller Machines (ATMs) or at Point-Of-Sale (POS) locations where food stamps are accepted.

Summary Conclusions

In our prior audit, we found that neither contractor had produced all of the contract deliverables or regularly met performance standards. As a result, the EBT system was not meeting

client expectations and was not providing the level of service to its users that was anticipated. These deficiencies may have resulted in clients needlessly incurring surcharge fees to access their benefits.

Audit Observations and Conclusions

In our follow-up review, we found that OTDA officials have made significant progress in implementing our prior audit recommendations.

Summary of Status of Prior Audit Recommendations

Of the 14 prior audit recommendations, OTDA officials have implemented 10 recommendations, and partially implemented 2 recommendations. Two recommendations are no longer applicable.

Follow-up Observations

Recommendation 1

Improve contractor training performance by:

- *Obtaining regular documentation of Citicorp's training efforts, including its program for ARU [Automated Response Unit] employees, and reviewing it for accuracy; and*
- *Accurately describing and sufficiently publicizing future client training sessions.*

Status - No Longer Applicable

Agency Action - This recommendation is no longer applicable since the EBT project is now beyond the training stage and all formalized training is complete. The information flow to clients now consists primarily of mailings and maintaining telephone numbers that clients can call to obtain answers to questions pertaining to the use of EBT Cards. Local social services district offices instruct new clients individually on the use of the Cards.

Recommendation 2

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

Status - No Longer Applicable

Agency Action - OTDA officials concluded that recouping the additional costs was not reasonable since the Citicorp trainer did have the required technical knowledge. However, the trainer was not familiar with the unique operational issues pertinent to New York City's administration of EBT. This lack of familiarity was a lapse in OTDA officials' planning and

their ability to anticipate the agency's requirements. Thus, OTDA believed there was no basis for recouping any money from Citicorp.

Recommendation 3

Reconcile SFARS [Specialized Fraud and Abuse Reporting System] 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.

Status - Implemented

Agency Action - OTDA has assumed Citicorp's former task of developing SFARS, in exchange for a \$250,000 reduction in the contract amount. However, Citicorp still provides the data for SFARS. For an 18-month period, OTDA reconciled the data received for SFARS with data in the State Issuer Reports, and found that they matched. OTDA's Audit and Quality Control division produces regular reports based on these reconciliations. Our examination of the December 7, 2002, SFARS Reconciliation Report confirmed this process; we found that the SFARS totals matched the State Issuer Report totals.

Recommendation 4

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.

Status - Implemented

Agency Action - We received a SFARS Record Layout that identified nine new fields, as follows: Payee Client Identification Number; Social Security Number; Debit Account Number; Surcharge Indicator; Surcharge Amount; ATM Fee Indicator; Payee Common Benefit Identification Card Cardholder Name; Payee Date of Birth; and Restaurant Indicator.

Recommendation 5

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

Status - Implemented

Agency Action - OTDA took the following steps:

- Deployed 149 additional ATMs in targeted areas throughout New York City;
- Mailed to 225,000 New York City households, providing information in multiple languages on surcharge-free ATM locations; and
- Established a toll-free number, maintained by the contractor, providing the above information.

We received copies of the brochures and sample mailings sent to clients informing them where they can access their benefits in their neighborhoods without paying a fee, and providing them with a listing of the 149 additional ATM machines OTDA deployed in targeted areas.

Recommendation 6

Incorporate edits into the SFARS to capture transaction data errors such as blanks or inconsistent spelling, coding errors, and data formatting problems.

Status - Partially Implemented

Agency Action - To date, edits have not been incorporated into SFARS. However, SFARS data, although provided by Citicorp, often originates with third parties that do not provide accurate or consistent information. The fields used are based on a banking standard, Regulation E, and include such required information as address, city, state, and zip code. However, the standard requires only that the fields be completed, not that the spelling is consistent among fields containing the same information (i.e., State). OTDA has some assurance that the SFARS information for food stamps is accurate because the United States Department of Agriculture provides it with an authorization number for each food stamp vendor. OTDA uses this number to verify each vendor's information. For other benefits, OTDA is aware of errors only if Citicorp corrects them. OTDA officials informed us that they have just begun data cleanup for SFARS by running some address match programs.

Recommendation 7

Act to ensure Citicorp EFS 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.*

Status - Partially Implemented

Agency Action - Modifying due dates is no longer necessary at this stage in the process. OTDA showed us modified versions of the eight deliverables that we originally cited as not having adequate content. For example, OTDA gave us a copy of a new version of a "User Acceptance Testing Test Summary," which contained substantial detail regarding the tests performed and the results thereof. However, OTDA officials have not obtained the outstanding approval signatures for the 13 contract deliverables.

Recommendation 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.

Status - Implemented

Agency Action - OTDA provided us with a copy of the updated "Appendix B" and documentation showing that resumes for two additional staff to the project had been reviewed and approved.

Recommendation 9

Review, and test the accuracy of performance reports submitted by Citicorp.

Status - Implemented

Agency Action - OTDA developed a process for monitoring and tracking all performance standards. Performance Standards data are posted and tracked on a monthly basis. In addition, biweekly meetings are held, during which performance standards are reviewed, as well as ongoing daily activities. We reviewed sample documentation that report submissions were being monitored and compliance with contract performance standards was being evaluated.

Recommendation 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.

Status - Implemented

Agency Action - According to OTDA, the contractor has been complying with this requirement. There have been two new staff additions and we reviewed sample documentation of OTDA's review of their resumes. OTDA approved, in writing, their addition to the project.

Recommendation 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.

Status - Implemented

Agency Action - According to OTDA officials, most of the non-compliance issues were minor in nature, and had no significant impact. OTDA felt that because the contractor has worked diligently to rectify problems, there was no need to assess damages. OTDA will continue to consider whether remedies available under the contract are necessary in future circumstances.

Recommendation 12

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

Status - Implemented

Agency Action - Continental's parent company (GTECH) assumed its contractual responsibilities in February, 2002. After an assessment of approximately \$600,000 in damages, GTECH is expected to follow a corrective action plan. The contractor's performance is improving; if it continues to comply with the corrective action plan, as much as half of the damages may be forgiven by OTDA.

Recommendation 13

Obtain a current organizational chart of Continental and subcontractor employees to ensure that appropriate background checks have been performed.

Status - Implemented

Agency Action - OTDA obtained the organizational chart and provided us with a copy. However, OTDA officials pointed out that, while they encourage background checks, they are not required by the contract. Given the nature of EBT Cards, for future contracts we suggest that OTDA consider requiring background checks.

Recommendation 14

Work with Continental and its subcontractor to establish a system of internal controls 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 undeliverable.*

Status - Implemented

Agency Action - OTDA informed us that the card production room has been locked consistently, and that a separate air conditioner has been installed. We visited the room during our review and found the door locked. We also observed two large blowers, a fan and a backup air

conditioner in the room. Moreover, inventory counts are performed by OTDA staff whose duties are independent of the card custody function, and that these counts are reconciled to the recorded inventory balances. When we reviewed two sample inventory reports, we found that both showed that all of the inventory on hand matched the inventory on record. According to OTDA, the contractor has regularly submitted the required return mail reports. We reviewed sample copies for the months of June, July, and August 2002. OTDA officials informed us that the contractor is not contractually required to validate addresses before the Cards are mailed.

Major contributors to this report were Keith Dickter, Abe Fish, Rick Sturm, and Brian Reilly.

We would appreciate your response to this report within 30 days, indicating any actions planned or taken to address any unresolved matters discussed in this report. We also thank OTDA management and staff for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

William P. Challice
Audit Director

cc: Deirdre A. Taylor