Department of Human Services
Division of Family Development
Electronic Benefits Transfer
Computer Application

November 22, 1999 to April 14, 2000

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State Auditor
The Honorable Christine Todd Whitman  
Governor of New Jersey

The Honorable Donald T. DiFrancesco  
President of the Senate

The Honorable Jack Collins  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Electronic Benefits Transfer (EBT) computer application for the period November 22, 1999 to April 14, 2000. Payments are processed by Deluxe Electronic Payment Systems under the direction of the Department of Human Services, Division of Family Development.

If you would like a personal briefing, please call me at (609) 292-3700.

June 6, 2000
# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope</td>
<td>1</td>
</tr>
<tr>
<td>Objectives</td>
<td>2</td>
</tr>
<tr>
<td>Methodology</td>
<td>2</td>
</tr>
<tr>
<td>Conclusions</td>
<td>3</td>
</tr>
<tr>
<td>Findings and Recommendations</td>
<td></td>
</tr>
<tr>
<td>Security Administration</td>
<td>4</td>
</tr>
</tbody>
</table>
Department of Human Services
Division of Family Development
Electronic Benefits Transfer Computer Application

Scope

We have completed an audit of the Electronic Benefits Transfer (EBT) computer application for the period November 22, 1999 to April 14, 2000. Our audit evaluated application controls and selected general controls involved in the processing of food stamp benefits and Temporary Assistance for Needy Families’ (TANF) payments.

EBT is an alternative method of issuing government assistance benefits and has eliminated the issuance of public assistance checks and food stamp coupons. The EBT program began in Camden County in 1994. Statewide implementation was completed in June of 1999. Fiscal Year 2000 expenditures during our review were approximately $179 million in cash benefits and $237 million in food stamp benefits. The EBT program is administered at the county level by contract with Deluxe Electronic Payment Systems.

Currently, New Jersey issues TANF and food stamp benefits through the Families First program. Each payee is issued a magnetic card by the county welfare agency, which is used to access his or her benefits. The card is called a Families First card. Food stamp benefits are accessed at retailers authorized to accept food stamp coupons by the Food and Nutrition Service of the U.S. Department of Agriculture. Those retailers are equipped with point of sale terminals which allow each payee to debit their account by the amount of food purchased. Cash benefits are accessed at Automated Teller Machines (ATM’s) and at other approved businesses equipped to process Families First transactions.

The Department of Human Services, Division of Family Development, in conjunction with county welfare agencies, produces the computer eligibility files listing the authorized benefits. This file is then transferred to the payment processing vendor. We tested the controls
in place over input to and security of this authorization file.

New Jersey has contracted with Deluxe Electronic Payment Systems (DEPS) to process its EBT payments. The contractor is responsible for maintenance and operation of the computer equipment and system. In addition the contractor: distributes benefits to New Jersey Families First Cardholders; manages the EBT card information for the authorization of transactions; maintains authorization files of cases, clients, and benefits; provides around the clock customer service support for cardholders and merchants; supplies on-line access to the authorization database and transaction history files; provides reconciliations of all financial and maintenance activities; and performs settlement procedures between the State and Federal Government, merchants and ATM owners for benefits distributed. Controls over these payment processing functions were reviewed in an audit known as a Type 2 SAS 70 audit performed by a CPA firm.

DEPS also produces reports that detail the amounts of benefits processed. We tested these figures to determine they did not exceed authorized benefits.

**Objectives**

The objective of our audit was to determine the adequacy of application and general controls in place relating to asset safeguarding and access to system data.

This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

**Methodology**

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Additional guidance for the conduct of the audit was provided by *Assessing the Reliability of Computer-Processed Data* issued by the United States General Accounting Office and *Auditing Computer Applications* issued by Auerbach.
In preparation for our testing, we studied system user, operation, and facility guides, and federal regulations promulgated by the Department of Agriculture’s Food and Nutrition Services. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, analytical review, and through our sampling of drawdowns by DEPS, of authorizations entered directly onto DEPS files, and of benefit authorizations that were cancelled.

We also obtained a Type 2 SAS 70 report on DEPS’ EBT processing issued by a CPA firm. No findings were reported.

Conclusions

Our review disclosed that controls in place relating to access to system data and the safeguarding of assets are adequate. In making this determination, we noted an internal control weakness meriting management’s attention.
The security administration over the EBT system at the state and county level should be strengthened.

Security Administration

We noted that no security policies and procedures have been promulgated resulting in no independent responsibility for monitoring the system. The Division of Family Development’s security officer grants privileges to county employees designated as area administrators. Once assigned these privileges, the area administrator grants access privileges to users of the system. There is no independent verification that the users’ access privileges coincide with their respective job functions nor does the division periodically review the actions of the area administrators. In addition, system security reports which are produced by DEPS are not reviewed. The lack of independent monitoring increases the potential for the disbursement of unauthorized benefits.

Recommendation

We recommend that security policies and procedures be implemented which provide for independent monitoring of users’ access levels, review of security reports, and division intervention when problems are noted.

Auditee’s Response

We are developing formal, standardized procedures for a quarterly review by all counties of users’ access to the EBT Administration Terminal. Every Regional Security Administrator will be required to review the security access profile(s) of all individuals registered as users of the EBT Administration Terminal using the Deluxe Access Definition Report, and adjust security access as necessary. Further, the County EBT Liaison will be required to attest that the security access review has been completed and that the security access profiles for all users are appropriate to their job functions. A summary report of the results of each review will be required via a form developed for that purpose. The summary reports will be reviewed and approved by State EBT staff.