

## Food and Nutrition Service, USDA

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that are uncanceled and unmarked for making change in food stamp transactions. Restaurants which are authorized by FNS under §278.1 to provide meals to homeless food stamp recipients shall return cash change to such recipients in food stamp transactions when the amount of change due is less than one dollar. If change of one dollar or more is due, uncanceled and unmarked one dollar coupons shall also be used for change.

[54 FR 7004, Feb. 15, 1989, as amended at 54 FR 51352, Dec. 15, 1989; 57 FR 11249, Apr. 1, 1992; 61 FR 53600, Oct. 15, 1996]

### § 274.11 Issuance and inventory record retention, and forms security.

(a) *Availability of records.* The State agency shall maintain issuance, inventory, reconciliation, and other accountability records for a period of three years as specified in §272.1(f) of this chapter. This period may be extended at the written request of FNS.

(1) Issuance, inventory, reconciliation, and other accountability records shall include all Agency, State, and local forms involved in the State agency's receipt, storage, handling, issuance, and destruction of coupons completed by contract agents or any other individuals or entities involved in issuance or inventory, as well as those completed by the State agency.

(2) In lieu of the records themselves, easily retrievable microfilm, microfiche, or computer tapes which contain the required information may be maintained.

(b) *Control of issuance documents.* The State agency shall control all issuance documents which establish household eligibility while the documents are transferred and processed within the State agency. The State agency shall use numbers, batching, inventory control logs, or similar controls from the point of initial receipt through the issuance and reconciliation process. The State agency shall also ensure the security and control of authorization documents in transit from the manufacturer to the State agency.

(c) *Accountable documents.* (1) HIR cards, authorization documents, and mandated Photo ID cards shall be considered accountable documents. The State agency shall provide the fol-

lowing minimum security and control procedures for these documents:

- (i) Preprinted serial numbers;
- (ii) Secure storage;
- (iii) Access limited to authorized personnel;
- (iv) Bulk inventory control records;
- (v) Subsequent control records maintained through the point of issuance or use, and
- (vi) Periodic review and validation of inventory controls and records by parties not otherwise involved in maintaining control records.

(2) For notices of change which initiate, update or terminate the master issuance file, and blank ID cards, the State agency shall, at a minimum, provide secure storage and shall limit access to authorized personnel.

[54 FR 7004, Feb. 15, 1989, as amended at 60 FR 20183, Apr. 25, 1995]

### § 274.12 Electronic Benefit Transfer issuance system approval standards.

(a) *General.* This section establishes rules for the approval, implementation and operation of Electronic Benefit Transfer (EBT) systems for the Food Stamp Program as an alternative to issuing food stamp coupons. By October 1, 2002, State agencies must have EBT systems implemented statewide, unless the Secretary provides a waiver for a State agency that faces unusual barriers to implementing an EBT system. In general, these rules apply to both on-line and off-line EBT systems, unless stated otherwise herein, or unless FNS determines otherwise for off-line systems during the system planning and development process.

(b) *Program administration.* (1) The State food stamp agency shall submit Planning and Implementation Advanced Planning Documents (APDs) for FNS approval in accordance with the requirements of §277.18 of this chapter and this section. The State agency shall implement EBT systems in a pilot area prior to expansion Statewide or to other project areas. The areas of pilot operation and full-scale operation shall be identified in the Planning APD when submitted to FNS for approval.

(2) The State agency shall be responsible for the coordination and management of the EBT system. The Secretary may suspend or terminate some or all EBT system funding or withdraw approval of the EBT system from the State agency upon a finding that the State agency or its contracted representative has failed to comply with the requirements of this section and/or §277.18 of this chapter.

(3) All EBT systems within a State must follow a singular EBT APD and system architecture submitted by the State agency. Multiple EBT designs will be acceptable only if: such designs can be fully justified by the State agency; the system differences are transparent to participating households that move within the State; operating costs are the same or lower; and the ability of the different systems to readily communicate (transaction interchange) with one another.

(4) The State agency must provide written approval of the Planning and Implementation APDs from other participating Federal agencies or indicate that approval is being sought simultaneously from participating Federal agencies. The State agency shall indicate how it plans to incorporate additional programs into the EBT system if it anticipates the addition of other public assistance programs concurrent with or after implementation of the Food Stamp Program EBT system. The State agency shall also consult with the State agency officials responsible for administering the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) prior to submitting the Planning APD for FNS approval.

(c) *Pilot project approval requirements*—(1) *EBT Planning APD*. The State agency shall comply with the two-stage approval process for APDs in submitting an EBT system proposal to FNS for approval. In addition to the requirements for a Planning APD specified under §277.18(d)(1) of this chapter, the State agency shall commit itself to provide the following as part of the project planning activities to FNS for approval:

(i) *Pilot project site and expanded site descriptions*. At a minimum, the proposed pilot project site and expanded

site descriptions shall include the geographical boundaries, average number and characteristics of food stamp program participants and households, the number and type of authorized food retailers and authorized retailers bordering the pilot and expanded areas, the food stamp redemption patterns of food retailers, the status of commercial POS deployment and the estimated number of checkout lanes that will require POS equipment; and

(ii) *A description of major contacts*. A description of initial contacts the State agency has made in the proposed pilot area among food retailers, financial institutions and households or their representatives that may be affected by implementation of the EBT system. Written commitments from the retail grocer community (including supermarket chains, independent retailers, and convenience stores) and participating financial institutions in the pilot area shall be provided along with other documentation that demonstrates the willingness to support the proposed EBT system within the pilot area and expanded system area. The State agency shall submit evidence of contacts with recipient organizations and others.

(2) *EBT Implementation APD*. The EBT Implementation APD shall include the completed documents required under §277.18 of this chapter for Implementation APDs, where appropriate. In addition, EBT Implementation APDs shall include the detailed pilot project site description and expanded site description, as described in this paragraph. Also, the State agency shall commit to completing and submitting the following documents for FNS approval and obtaining such approval prior to issuance of benefits to eligible households in the pilot project area:

(i) A Functional Demonstration Plan. The functional demonstration plan shall include:

(A) The schedule, procedures, and test data for performing the functional requirements prescribed in paragraph (e) of this section in combination with the system components described by the approved System Design;

(B) The procedures for performing the functional demonstration, each participant's responsibility during the

demonstration, and procedures for collecting data to evaluate system functionality. The Department reserves the right to participate and conduct independent testing as necessary during the Functional Demonstration.

(ii) *A functional demonstration report.* Upon the completion of the functional requirements demonstration test, the State agency shall submit a Functional Demonstration report. The report shall summarize the activities, describe major problems encountered and proposed solutions, and provide the timetable for completing any system revisions. Resolution of any problems identified during the functional demonstration shall be completed prior to advancing towards the acceptance test.

(iii) *An acceptance test plan.* The Acceptance Test Plan for the pilot project shall describe the methodology to be utilized to verify that the EBT system complies with Food Stamp Program requirements and System Design specifications. At a minimum, the Acceptance Test Plan shall address:

(A) The types of testing to be performed;

(B) The organization of the test team and associated responsibilities, test database generation, test case development, test schedule, and the documentation of test results. Acceptance testing shall include functional requirements testing, error condition handling and destructive testing, security testing, recovery testing, controls testing, stress and throughput performance testing, and regression testing;

(C) A "what-if" component shall also be included to permit the opportunity for observers and participants to test possible scenarios in a free-form manner.

(D) The Department reserves the right to participate and conduct independent testing as necessary during the Acceptance testing and appropriate events during system design, development, implementation and operation.

(iv) *An acceptance test report.* The State agency shall provide a separate report after the completion of the acceptance test. The report shall summarize the activities, describe any discrepancies, describe the proposed solutions to discrepancies, and the timetable for their retesting and comple-

tion. In addition, the report shall contain the State agency's recommendations regarding implementation of the EBT system in the pilot site.

(v) *A prototype food retailer agreement.* The State agency shall enter an agreement with each food retailer that complies with the requirements of paragraph (g)(6) of this section.

(vi) *A pilot project implementation plan.* The pilot project implementation plan shall include the following:

(A) A description of the tools, procedures, detailed schedules, and resources needed to implement the pilot project;

(B) The equipment acquisition and installation requirements, ordering schedules, and system and component testing;

(C) A phase-in strategy which permits a measured and orderly transition to EBT. In describing this strategy, the plan shall address training schedules that avoid disruption of normal shopping patterns and operations of participating households and food retailers. Training of food stamp households, State agency personnel and retailers and/or their trainers shall be coordinated with the installation of equipment in retail stores;

(D) A description of on-going tasks associated with fine-tuning the system and making any corrective actions necessary to meet contractual requirements. The description shall also address those tasks associated with on-going training, document updates, equipment maintenance, on-site support and system adjustments, as needed to meet Food Stamp Program requirements; and,

(E) A plan for orderly phase-out of the pilot project if it is demonstrated during the pilot project operations that the system is not acceptable.

(vii) *A contingency plan.* The State agency shall submit a written contingency plan for FNS approval. The contingency plan shall contain information regarding the back-up issuance system that will be activated in the event of an emergency shut-down which results in short-term or extended system inaccessibility, or total discontinuation of EBT system operations. The contingency plan shall be

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incorporated into the State system security plan after FNS approval as prescribed at § 277.18(p) of this chapter.

(3) *EBT Implementation APD Budget.* The Implementation APD budget shall be prepared and submitted for FNS approval in accordance with the requirements of paragraph (k) of this section and § 277.18(d)(2) of this chapter.

(4) *Pilot project reporting.* (i) A quarterly report containing the following information delineated by month shall be provided to FNS by the end of the month following each Federal fiscal quarter. The quarterly report shall contain, at a minimum:

(A) A summary, by task, of major completed activities and scheduled activities for the upcoming period.

(B) The number of active cases for each month;

(C) The number and dollar amount of food stamp purchases in total and by store ID;

(D) The number and dollar amount of food stamp reversals, in total and by store ID;

(E) The total number and dollar amount of manual sales authorized;

(F) The total number and dollar amount of issuances posted to EBT accounts during the month, delineated by public assistance Food Stamp households and non-public assistance Food Stamp households;

(G) Total number and dollar amount of grocer credits during settlement (by day of month);

(H) Total number of retailers added to or deleted from the system as defined under part 278 of this chapter;

(I) Number and dollar amount of food stamp benefits converted to coupons;

(J) Total number of Food Stamp Program balance inquiries, by type of device such as Automated Teller Machines, POS terminals or Audio Response Units (ARUs) or hotline telephone numbers;

(K) Total number of rejected transactions, grouped by reasons (e.g., invalid PIN, insufficient funds, invalid transaction type for device, etc.);

(L) The number of access cards issued by the type of case (new, recertification, replacement for loss, damage or theft);

(M) Number of client calls and grocer calls to the ARU or hotline number;

(N) The average number of transactions by type;

(O) Average dollar value of purchases per case-month;

(P) Transactions utilized per day as a percentage of transactions through the system each month;

(Q) Problems encountered, their status, actions taken by the State agency and any support needed from FNS to resolve them; and

(R) Anticipated delays, reasons for the delays, and corrective actions planned or taken that require an amendment to the Project Work Plan. The Project Work Plan shall be updated and submitted with each quarterly report.

(ii) The State agency shall submit APD Updates as prescribed in § 277.18 of this chapter and paragraph (d) of this section.

(5) *Cost analysis.* (i) The State agency shall be responsible for conducting a cost analysis comparing the actual EBT pilot project costs to the costs of the EBT system operations projected in the Implementation APD and the costs of the coupon issuance system being replaced.

(ii) The cost analysis may be conducted by State agency staff or by an independent contractor. The cost analysis shall represent the costs of the pilot as costs per case-month.

(iii) The State agency shall report in the cost analysis all start-up costs that shall be amortized under the issuance cap for the EBT system. At a minimum, the State agency shall identify:

(A) The labor hours and costs by job category for each unit (e.g., the Food Stamp Program Section, the financial assistance section, the EBT project section, etc.) of the State and local agencies and for each vendor;

(B) The direct costs for each agency and vendor. The line items to be included are computer usage (CPU, disk storage, tapes, printing), the equipment amortization/lease and maintenance (excluding POS hardware), telecommunications installations, recurring telecommunications, benefit card stock and equipment, supplies, printing and reproduction, travel, postage, Automated Clearinghouse and wire transfer fees, in addition to other direct costs.

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(iv) The State agency shall report the per case-month operating costs of the EBT and the coupon systems. Case-month costs shall be calculated by determining the average monthly issuance cost per system divided by the average monthly food stamp caseload issued benefits for the most recent four fiscal quarters or the most recent fiscal year. These costs shall be reported by function. The functions include: authorizing access to benefits; delivering benefits; crediting retailers; managing retailer participation; and reconciling and monitoring the issuance system. For each function the State agency shall report the information specified in paragraphs (c)(5)(iii) (A) and (B) of this section.

(v) The State agency shall report benefit loss per case month. For coupon losses the State agency shall utilize data from Form FNS-250 Food Coupon Accountability Report, Form FNS-259 Food Stamp Mail Issuance Report, and Form FNS-46 Issuance Reconciliation Report. Data from actual EBT system losses shall be included as a separate line in the cost analysis report.

(vi) EBT operational costs shall be measured after the EBT pilot project system has operated for a minimum of three months with the full caseload in the pilot area. The cost analysis shall be submitted to FNS after completion of the period of pilot operations with the full caseload.

(vii) The State agency shall measure any residual coupon costs resulting from households within the demonstration site that have not been converted to EBT, households from outside of the site that shop at stores within the pilot project area; and households leaving the pilot project area. If the State agency proposes to operate EBT on less than a statewide basis for an indefinite period of time, costs for the combined coupon and EBT systems shall be reported and compared to the coupon system costs.

(d) *Expansion requirements.* After a minimum of three months of pilot project operation with the full pilot caseload, the State agency may decide to expand the EBT system. If expansion is selected, the State agency shall submit an APD Update to request FNS

approval to implement and operate the EBT system in areas beyond the pilot area. The APD Update shall contain the following:

(1) A proposed expansion budget for FNS' review and approval;

(2) An Implementation Plan. At a minimum, the Expansion Implementation Plan shall address:

(i) The requirements of paragraphs (c)(2)(vi) (A) through (D) of this section as applied to the expansion activities; and,

(ii) The names, titles, addresses, and telephone numbers of the persons responsible for coordinating expansion activities;

(3) A description of any necessary system design changes, including software modifications and/or modifications of equipment configurations. The design changes shall be documented within the ADP Update or provided to FNS for approval separately upon completion;

(4) An assessment of the effects the EBT pilot project had, if any, on program participation during the pilot operation; and,

(5) A revised Contingency Plan as required in paragraph (c)(7) of this section to address the expanded scope of the system.

(e) *Cost neutrality.* To receive full Federal reimbursement for food stamp administrative costs, the State agency must operate its EBT system in a cost-neutral manner, whereby the Federal cost of issuing benefits in the State after implementation of the EBT system does not exceed the Federal cost of delivering coupon benefits under the previous coupon issuance system. The issuance cost cap is expressed in terms of a cost per case month derived by dividing the annual total cost of issuance by the total number of households issued food stamp benefits during the year the costs were incurred. In determining its coupon issuance cap, the State agency shall use either: the National Coupon Issuance Cap, as determined by FNS, or calculate a State Coupon Issuance Cap based on the State agency's statewide issuance costs under the coupon issuance system. FNS will not reimburse the State agency for any costs incurred above the approved coupon issuance cap.

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(1) The National Coupon Issuance Cap is a case-month issuance amount, as calculated by FNS.

(2) A State Coupon Issuance Cap is a case-month issuance amount, as calculated by the State agency based on guidance provided by FNS. The State agency must provide narrative explanations and satisfactory supporting documentation to clarify each cost item, its relationship to the coupon issuance function, and how it was calculated. All issuance costs included in the State coupon issuance cap must have been charged to the Federal government and are subject to validation by FNS.

(3) The State agency shall submit its State coupon issuance cap or indicate it has opted to use the National Coupon Issuance Cap as part of the Implementation APD process. The State coupon issuance cap must be approved by FNS prior to implementation of the pilot, and shall be effective from the first date benefits are issued to households through the EBT system during the pilot project.

(4) Each State agency's approved State issuance coupon cap and the National Coupon Issuance Cap will be adjusted each Federal fiscal year based on the percentage change in the most recently published Gross Domestic Product Implicit Price Deflator Index (GDP Price Deflator) calculated from the percentage change in the index between the first quarter of the current calendar year and the first quarter of the previous year, as published each June by the Bureau of Economic Analysis.

(5) The determination of cost neutrality will be assessed on a prospective basis; that is, FNS will make a determination whether the EBT system will be cost neutral based on a comparison of the coupon issuance costs to the projected costs of the EBT system. The State agency may choose how they determine coupon issuance costs either according to paragraph (e)(1) or paragraph (e)(2) of this section. After approval of its coupon cost cap, the State agency shall submit to FNS an analysis, completed according to FNS guidance, comparing the coupon issuance costs to the projected EBT costs over the contract period for system oper-

ation which defines the life of the system. If the State agency uses the National Coupon Issuance Cap, Statewide cost projections for issuance costs after EBT implementation must include all contract costs and all other direct EBT issuance costs. If the State agency develops their own State issuance cost cap, Statewide cost projections for issuance costs after EBT implementation must include all of the direct EBT costs, and projections for all categories of allocated costs which were included in the coupon cost cap calculation using the same allocation methodology as in the cost cap calculation.

(i) EBT planning costs are to be excluded from the cost neutrality assessment and shall include costs attributed to the preparation of the Planning APD, all activities leading to the development of the EBT implementation plan, and the completion of the documentation contained in the FNS approved Implementation APD.

(ii) The cost neutrality assessment must include pre-issuance costs, which can include system design, development and start-up costs, and operations costs. The operations phase is defined as beginning with the first EBT issuance in the pilot area.

(iii) If the comparison demonstrates the proposed system will cost less than the coupon issuance system, no further measurement will be required for the life of the system unless there is a substantial increase in EBT costs requiring prior approval as described in § 277.18 (c)(2)(ii)(C) of this chapter and the submittal of an Implementation APD Update as outlined in the FNS Handbook 901 (APD Handbook).

(iv) Any State agency that cannot demonstrate cost neutrality prospectively will be required to track EBT costs throughout the life of the system according to FNS guidance, and reimburse FNS for any excess at the end of the defined system life.

(6) The State agency is required to provide an updated cost neutrality assessment for all subsequent EBT systems developed or implemented, incorporating the revised costs of the new system.

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(f) *Functional requirements.* The State agency shall ensure that the EBT system is capable of performing the following functional requirements prior to implementation:

(1) *Authorizing household benefits.* (i) Issuing and replacing EBT cards to eligible households;

(ii) Permitting eligible households to select a personal identification number (PINs) at least four digits in length;

(iii) Establishing benefit cards and accounts with the central computer database;

(iv) Maintaining the master household issuance record file data and current authorization information;

(v) Training households and other users in system usage;

(vi) Authorizing benefit delivery;

(vii) Posting benefits to each household's account for regular and supplemental issuances;

(viii) Providing households with access to information on benefit availability;

(ix) Ensuring the privacy of household data and providing benefit and data security;

(x) Inventorying and securing accountable documents; and

(xi) Zeroing out benefit accounts and other account authorization activity.

(2) *Providing food benefits to households.* (i) Verifying the identity of authorized households or authorized household representatives at issuance terminals or POS;

(ii) Verifying the PIN and/or PIN offset, primary account number (PAN), terminal identification number and retailer identification number;

(iii) Determining the sufficiency of the household's account balance in order to debit or credit household benefit accounts at the point-of-sale;

(iv) Sending messages authorizing or rejecting purchases;

(v) Providing back-up purchase procedures when the system is unavailable;

(vi) Ensuring that benefits are available and carried over from month-to-month.

(vii) Converting EBT benefits to coupons in accordance with paragraph (f)(6) of this section; and

(viii) Responding to issuance problems in a timely manner.

(3) *Crediting retailers and financial institutions for redeemed benefits.* (i) Verifying electronic transactions flowing to or from participating retailers' bank accounts;

(ii) Creating and maintaining a file containing the individual records of EBT transactions;

(iii) Totalling all credits accumulated by each retailer;

(iv) Providing balance information to retailers or third party processors from individual POS terminals, as needed;

(v) Providing each retailer information on total deposits in the system on a daily basis;

(vi) Preparing a daily tape in a National Automated Clearinghouse format or other process approved by FNS with information on benefits redeemed for each retailer and in summary;

(vii) Transmitting the automated clearinghouse (ACH) tape to a financial institution for transmission through the ACH or other method approved by FNS;

(viii) Transferring the information on the ACH tape or other process approved by FNS containing daily redemption activity of each retailer to the FNS Minneapolis Computer Support Center at least once weekly. Transmittal may be by tape, disc, remote job entry or other means acceptable to FNS.

(4) *Managing retailer participation.* The State agency shall:

(i) Convey retailer authorization information provided by FNS to the system operator using the Retailer Electronic Benefit Transfer (EBT) Data Exchange (REDE) system. The State agency must access the REDE files to ensure that the FNS retailer files used to authorize valid EBT Food Stamp transactions are updated on a daily basis. Follow-up on actions taken regarding any disqualification or withdrawal by an authorized food retailer from the Food Stamp Program must occur within two business days after receipt;

(ii) Add newly authorized food retail stores or third party processors to the EBT system as prescribed under paragraph (g)(1)(ii) of this section.

(iii) Ensure that only currently authorized retailers can access the system;

(iv) Monitor food retailers to ensure that equipment deployment complies with paragraph (g)(4) of this section;

(v) Ensure that equipment and supplies are maintained in working order for retail stores equipped by the State agency or its contractor. Equipment shall be replaced or repaired within 24 hours;

(vi) Ensure that retail store employees are trained in system operation prior to implementation. Such training shall include the provision of appropriate written and program specific materials;

(vii) Provide a mechanism for compliance investigations which permits authorized investigators to have access to the system in order to conduct investigations of program abuse and alleged violations.

(g) *Household participation*—(1) *Transaction limits*. No minimum dollar amount per transaction nor maximum limit on the number of transactions shall be established. In addition, no transaction fees shall be imposed on food stamp households utilizing the EBT system to access their benefits.

(2) *Access to balances*. Households shall be permitted to determine their food stamp account balances without making a purchase or standing in a checkout line. The State agency shall ensure that the EBT system is capable of providing a transaction history for a period of up to two calendar months to households upon request.

(3) *Transaction receipts*. Households shall be provided printed receipts at the time of transaction. At a minimum this information shall:

(i) State the date, merchant's name and location, transaction type, transaction amount and remaining balance for the food stamp account;

(ii) Comply with the requirements of 12 CFR part 205 (Regulation E) in addition to the requirements of this section; and

(iii) Identify the food stamp household member's account number (the PAN) or a coded transaction number. The household's name shall not appear on the receipt except when a signature is required when utilizing a manual transaction voucher.

(4) *Issuance of benefits*. State agencies shall establish an availability date for

household access to their benefits and inform households of this date.

(i) The State agency may make adjustments to benefits posted to household accounts after the posting process is complete but prior to the availability date for household access in the event benefits are erroneously posted.

(ii) A State agency shall make adjustments to an account to correct an auditable, out-of-balance settlement condition that occurs during the redemption process as a result of a system error. A system error is defined as an error resulting from a malfunction at any point in the redemption process: from the system host computer, to the switch, to the third party processors, to a store's host computer or point of sale (POS) device. These adjustments may occur after the availability date and may result in either a debit or credit to the household.

(A) *Client-initiated adjustments*. The State agency must act on all requests for adjustments made by client households within 90 calendar days of the error transaction. The State agency has 10 business days from the date the household notifies it of the error to investigate and reach a decision on an adjustment and move funds into the client account. This timeframe also applies if the State agency or entity other than the household discovers a system error that requires a credit adjustment to the household. Business days are defined as calendar days other than Saturdays, Sundays, and Federal holidays.

(B) *Retailer-initiated adjustments*. The State agency must act upon all adjustments to debit a household's account no later than 10 business days from the date the error occurred, by placing a hold on the adjustment balance in the household's account. If there are insufficient benefits to cover the entire adjustment, a hold shall be placed on any remaining balance that exists, with the difference being subject to availability only in the next future month. The household shall be given, at a minimum, adequate notice in accordance with § 273.13 of this chapter. The notice must be sent at the time the initial hold is attempted on the household's current month's remaining balance, clearly state the full adjustment

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amount, and advise the household that any amount still owing is subject to collection from the household's next future month's benefits.

(1) The household shall have 90 days from the date of the notice to request a fair hearing.

(2) Should the household dispute the adjustment and request a hearing within 10 days of the notice, a provisional credit must be made to the household's account by releasing the hold on the adjustment balance within 48 hours of the request by the household, pending resolution of the fair hearing. If no request for a hearing is made within 10 days of the notice, the hold is released on the adjustment balance, and this amount is credited to the retailer's account. If there are insufficient funds available in the current month to cover the full adjustment amount, the hold may be maintained and settled at one time after the next month's benefits become available.

(iii) The appropriate management controls and procedures for accessing benefit accounts after the posting shall be instituted to ensure that no unauthorized adjustments are made in accordance with paragraph (f)(7)(iii) of this section.

(5) *Issuance and replacement of cards or PINs.* (i) The State agency shall permit food stamp households to select their Personal Identification Number (PIN). PIN assignment procedures shall not be permitted.

(ii) The State agency shall replace EBT cards within two business days following notice by the household to the State agency. The State may request a waiver from the Department to allow a longer replacement time.

(iii) The State agency shall ensure that a duplicate account is not established which would permit households to access more than one account in the system.

(iv) An immediate hold shall be placed on accounts at the time notice is received from a household regarding the need for card or PIN replacement. The State agency shall implement a reporting system which is continually operative. Once a household reports that their EBT card has been lost or stolen, the State agency shall assume liability for benefits subsequently

drawn from the account and replace any lost or stolen benefits to the household. The State agency or its agent shall maintain a record showing the date and time of all reports by households that their card is lost or stolen.

(v) The State agency may impose a replacement fee by reducing the monthly allotment of the household receiving the replacement card; however, the fee may not exceed the cost to replace the card. If the State agency intends to collect the fee by reducing the monthly allotment, it must follow FNS reporting procedures for collecting program income. State agencies currently operating EBT systems must inform FNS of their proposed collection operations. State agencies in the process of developing an EBT system must include the procedure for collection of the fee in their system design document. All plans must specify how the State agency intends to account for card replacement fees and include identification of the replacement threshold, frequency, and circumstances in which the fee shall be applicable. State agencies may establish good cause policies that provide exception rules for cases where replacement card fees will not be collected.

(6) *Benefit conversion.* (i) Households leaving an EBT State must be able to use their electronic benefits upon relocation. A State agency must convert these electronic benefits to paper coupons if a household is relocating to a State that is not interoperable and where electronic benefits are not portable from the household's current State of residence. At State agency option, a household entering an EBT area may be required to spend any remaining food coupons prior to utilizing the EBT system to access their benefits. Conversion shall occur within one business day following notice to the State agency by the household when inventories of food coupons are stored at local agency locations. Conversion shall occur within three business days if the State maintains coupon inventories in a central location.

(ii) Requests for conversions to food coupons solely for purposes of shopping outside the pilot area shall be prohibited. However, the State agency may

allow benefits in an EBT account to be converted to coupons for short-term absences from the EBT system area for family emergencies or similar isolated occurrences.

(iii) Splitting food stamp benefits between food coupons and an electronic benefit access card at the time of issuance shall not be permitted.

(iv) At State agency option, a limit may be imposed on the number of conversions per household that may occur annually for the purposes prescribed under paragraph (f)(6)(ii) of this section. A limit on conversions to food coupons shall not be imposed on households moving from the EBT area.

(v) The State agency shall develop procedures for conversion whenever a household has left a State. These procedures shall not conflict with mailing restrictions regarding Authorization to Participate documents or other authorizing documents.

(vi) The State agency shall round EBT benefits remaining in an account down to the nearest dollar amount suitable for coupon issuance. The State agency shall require the household to spend any remaining balance that cannot be converted to food coupons. If a household fails to spend the remaining benefits within one week after conversion occurs, the State agency shall expunge the benefits from the account and report the adjustment to the Department.

(7) *Stale account handling.* Stale benefit accounts are those food stamp benefit accounts which are not accessed for three months or longer.

(i) If EBT accounts are inactive for three months or longer, the State agency may store such benefits off-line.

(A) Benefits stored off-line shall be made available upon reapplication or re-contact by the household;

(B) The State agency shall attempt to notify the household of this action before storage of the benefits off-line and describe the steps necessary to bring the benefits back on-line;

(ii) The State agency shall expunge benefits that have not been accessed by the household after a period of one year. Issuance reports shall reflect the adjustment to the State agency issuance totals to comply with month-

ly issuance reporting requirements prescribed under § 274.4 of this part.

(iii) Procedures shall be established to permit the appropriate managers to adjust benefits that have already been posted to a benefit account prior to the household accessing the account; or, after an account has become dormant or the household has not used the funds which remain after conversion. The procedures shall also be applicable to removing stale accounts for off-line storage of benefits or when the benefits are expunged. Whenever benefits are expunged or stored off-line, the State agency shall document the date, amount of the benefits and storage location in the household case file.

(8) *Timely benefit availability.* The State agency shall ensure that the EBT system complies with the expedited service benefit delivery standard and the normal application processing standards prescribed by § 273.2 and § 274.2 of this chapter.

(9) *Access to retail stores.* The EBT system shall provide for minimal disruption of access to and service in retail stores by eligible households. The EBT system shall not result in a significant increase in the cost of food or cost of transportation to authorized food retail stores for food stamp households. Checkout lanes equipped with POS devices shall be made available to Food Stamp households during all retail store hours of operation.

(10) *Household training.* The State agency shall provide training to each household prior to implementation and as needed during ongoing operation of the EBT system. Training functions for an EBT system may be incorporated into certification procedures. At a minimum, the household training shall include:

(i) Content which will familiarize each household with the provisions of paragraphs (f)(1) through (f)(9) of this section;

(ii) Hands-on experience for each household in the use of the EBT equipment necessary to access benefits and obtain balance information;

(iii) Notification to the household of the procedures for manual transactions and re-presentation;

(iv) The appropriate utilization and security of the Personal Identification Number;

(v) Each household's responsibilities for reporting loss or damage to the EBT card and who to report them to, both during and outside business hours. Information on a 24 hour hotline telephone number shall be provided to each household during training;

(vi) Written materials and/or other information, including the specific rights to benefits in an EBT system, shall be provided as prescribed under 7 CFR 272.4(b) for bilingual households and for households with disabilities. Written materials shall be prepared at an educational reading level suitable for food stamp households;

(vii) Information on the signs or other appropriate indicators located in checkout lanes that enable the household to identify lanes equipped to accept EBT cards.

(viii) Disclosure information regarding adjustments and a household's rights to notice, fair hearings, and provisional credits. The disclosure must also state where to call to dispute an adjustment and request a fair hearing. State agencies that have already implemented EBT shall have one year in which to grandfather adjustment disclosure into their training materials.

(h) *Retailer participation.* (1) All authorized retailers must be afforded the opportunity to participate in the EBT system. An authorized food retailer shall not be required to participate in an EBT system.

(i) Retailers who do not have immediate access to telephones at the time of purchase shall be accommodated by an alternative system (e.g., manual vouchers with preliminary or delayed telephone verification) for redeeming food sales to eligible food stamp customers. These retailers include stationary food stores which opt to make home deliveries to food stamp households, house-to-house trade routes which operate on standing orders from customers, e.g. milk and bread delivery routes, food buying cooperatives authorized to participate as well as other food retailers authorized under §278.1 of this chapter. Prior to delivery or upon returning to the store, the retailer shall telephone the EBT central

computer or hotline number to log the transaction and obtain an authorization number. If authorization cannot be obtained before or at the time of purchase, the retailer assumes the risk for sufficient benefits being available in the household's account. Any alternate method cannot be burdensome on either the household or the retailer, and it must include acceptable privacy and security features. Such systems shall only be available to retailers that cannot be equipped with a POS terminal at the time of sale.

(ii) Newly authorized retailers shall have access to the EBT system within two weeks after the receipt of the FNS authorization notice. However, whenever a retailer chooses to employ a third party processor to drive its terminals or elects to drive its own terminals, access to the system shall be accomplished within a 30 day period or a mutually agreed upon time to enable the third party interface specifications and any State required functional certification to be performed by the State agency and/or its contractor. The FNS field office shall notify each new retailer at the time of application for authorization that an EBT system is operating in their store location(s). The field office shall also notify the State agency in a timely manner when a retailer is authorized to participate in the Food Stamp Program.

(2) Authorized retailers shall not be required to pay costs essential to and directly attributable to EBT system operations as long as the equipment or services are provided by the State agency or its contractor and are utilized solely for the Food Stamp Program. In addition, if Food Stamp Program equipment is deployed under contract to the State agency, the State agency may, with USDA approval, share appropriate costs with retailers if the equipment is also utilized for commercial purposes.

(3) The State agency shall ensure that a sufficient number of authorized food retailers have agreed to participate throughout the area in which the EBT system will operate to ensure that eligible food stamp households will not suffer a significant reduction in their choice of retail food stores and that a sufficient number of retail food stores

servicing minority language populations are participating.

(4) The EBT system shall be implemented and operated in a manner that maintains equal treatment for food stamp households in accordance with § 278.2(b) of this chapter. The following requirements for the equal treatment of food stamp households shall directly apply to EBT systems:

(i) Retailers shall not establish special checkout lanes which are only for food stamp households or welfare customers. If special lanes are designated for the purpose of accepting other electronic debit or credit cards and/or other payment methods such as checks, food stamp customers with EBT cards may also be assigned to such lanes as long as other commercial customers are assigned there as well.

(ii) POS terminals shall be deployed as follows in EBT systems requiring food stamp households to participate:

(A) For an authorized food retail store with food stamp benefit redemption amounting to 15 percent or more of total food sales, all checkout lanes shall be equipped;

(B) For an authorized food retail store with Food Stamp benefit redemptions representing less than 15 percent of total food sales, supermarkets shall, at a minimum, receive one terminal for every \$11,000 in monthly redemption activity up to the number of lanes per store. All other food retailers shall receive one terminal for every \$8,000 in monthly redemption activity up to the number of lanes per store. However, a State agency may utilize an alternative deployment formula that permits equipment deployment at higher levels than required by this paragraph up to the number of lanes in each store. The State agency shall review terminal deployment on a yearly basis and shall be authorized to remove excess terminals if actual redemption activity warrants a reduction.

(C) For newly authorized food retailers and authorized food retailers bordering the EBT system area, the State agency and food retailer shall negotiate a mutually agreed level of terminal deployment up to the number of lanes per store. The State agency may consult with the appropriate FNS field office in order to determine the pre-

vious food stamp redemption activity that could be utilized in determining the initial number of terminals to deploy in newly authorized retailers or border stores. The State agency shall examine household shopping patterns in the EBT operating area in order to establish the needs for border store equipment. The need to deploy equipment outside the State is limited to neighboring States that are not interoperable due to exemptions for technological barriers or temporary waivers. State agencies will also need to make accommodations for border stores in interoperable States that are deemed necessary for client access. To do so, State agencies must ensure that procedures are in place to process manual vouchers in instances when the system is down or for those retailers that do not have POS equipment. Redemption information shall remain confidential.

(D) Any food retailer shall be able to submit further evidence that it warrants additional terminals after the initial POS terminals are deployed. Food stamp households may also submit evidence to the State agency that additional POS terminals are needed.

(5) The State agency shall ensure that the EBT system provides credits to the financial institution holding the accounts for retailers or third party processors within two business days of the daily cut-over period for retailer settlement. The cut-over period is the time of day established by the system in which a transaction day is established for settlement and reconciliation.

(6) The State agency shall enter into an agreement with each authorized food retailer. The retailer agreement shall describe the terms and conditions of participation in the Food Stamp EBT system. At a minimum, the agreement shall:

(i) Describe all terms and conditions with respect to equipment ownership, lease arrangements, handling and maintenance for which the State agency and merchant are liable;

(ii) Describe the agreed upon procedures and policies for participation and withdrawal from the EBT system;

(iii) Comply with all Food Stamp Program regulations with respect to retailer participation in the program

and treatment of Food Stamp Program households. This shall include specific requirements with respect to the deployment of terminals and the identification of checkout lanes for food stamp customers;

(iv) Delineate the liabilities during system downtime and the associated responsibilities of each party with respect to the use of off-line and/or manually entered data, paper vouchers, and re-presented vouchers.

(i) *Performance and technical standards.* The State agency shall ensure that EBT systems comply with Point of Sale (POS) technical standards established by the American National Standards Institute (ANSI) or International Organization for Standardization (ISO) where applicable. This includes the draft EBT ISO 8583 Processor Interface Technical Specifications contained in the ANSI standards, which delineates a standard message format for retailers and third parties. In addition, the State agency shall ensure that the EBT system meets performance and technical standards in the areas of system processing speeds, system availability and reliability, system security, system ease-of-use, minimum card and terminal requirements, performance bonding, and a minimum transaction set. With prior written approval from FNS, the State agency may utilize the prevailing industry performance standards in its region in lieu of those identified in this section. The standards shall be included in all requests for proposals and contracts.

(1) *System processing speeds.* (i) For leased line systems, 98 percent of EBT transactions shall be processed within 10 seconds or less and all EBT transactions shall be processed within 15 seconds. Leased line systems rent telecommunications carriers specifically to connect to the central authorizing computer. For dial-up systems, 95 percent of the EBT transactions shall be processed within 15 seconds or less and all EBT transactions shall be processed within 20 seconds or less. Dial-up systems utilize existing telecommunications lines to dial up and connect to the central computer at the time of the transaction. Processing response time shall be measured at the POS terminal

from the time the 'enter' or 'send' key is pressed to the receipt and display of authorization or disapproval information. Third party processors, as defined in paragraph (h)(5) of this section, shall be required by the State agency to comply with the same processing response times required of the primary processor.

(ii) The EBT system shall provide reports, as determined by the State agency, that document transaction processing response time and the number and type of problematic transactions that could not be processed within the standard response time.

(2) *System availability and reliability.*

(i) The EBT system central computer shall be available 99.9 percent of scheduled up-time, 24 hours a day, seven days per week. Scheduled up-time shall mean the time the database is available for transactions excluding scheduled downtime for routine maintenance. The total system, including the system's central computer, any network or intermediate processing facilities and cardholder authorization processors, shall be available 98 percent of scheduled up-time, 24 hours per day, 7 days per week. Scheduled downtime for routine maintenance shall occur during non-peak transaction periods. State certification procedures shall determine whether intermediate processing facilities and cardholder authorization processors are capable of complying with system availability standards prescribed herein prior to permitting the interface with the central computer system.

(ii) The system central computer shall permit no more than 2 inaccurate EBT transactions for every 10,000 EBT transactions processed. The transactions to be included in measuring system accuracy shall include all types of food stamp transactions permitted at POS terminals and processed through the host computer, manual transactions entered into the system, credits to household accounts, and funds transfers to retailer accounts.

(iii) Reconciliation reports and other information regarding problematic transactions shall be made available to the State agency by the system operator, individual retailers, households

or financial institutions as appropriate. Reports on problematic transactions, including inaccurate transactions shall be delineated by the source of the problem such as card failure, POS terminal failure, interruption of telecommunications, or other component failure. Errors shall be resolved in a timely manner.

(3) *System security.* As an addition to or component of the Security Program required of Automated Data Processing systems prescribed under § 277.18(p) of this chapter, the State agency shall ensure that the following EBT security requirements are established:

(i) Storage and control measures to control blank unissued EBT cards and PINs, and unused or spare POS devices;

(ii) Measures to ensure communication access control. Communication controls shall include the transmission of transaction data and issuance information from point-of-sale terminals to work-stations and terminals at the data processing center. The following specific security measures shall be included, as appropriate, in the system design documentation, operating procedures or the State agency Security Program:

(A) Computer hardware controls that ensure acceptance of data from authorized terminals only. These controls shall include the use of mechanisms such as retailer identification codes, terminal identifiers and user identification codes, and/or other mechanisms and procedures recognized by the industry;

(B) Software controls, placed at either the terminal or central computer or both, that establish separate control files containing lists of authorized retailers, terminal identifying codes, and user access and identification codes. EBT system software controls shall include separate checks against the control files in order to validate each transaction prior to authorization and limiting the number of unsuccessful PIN attempts that can be made utilizing standard industry practices before the card is deactivated;

(C) Communications network security that utilizes the Data Encryption Standard algorithm to encrypt the PIN, at a minimum, from the point of entry. Other security may include au-

thentication codes and check-sum digits, in combination with data encoded on the magnetic stripe such as the PIN and/or PIN offset, to ensure data security during electronic transmission. Any of the network security measures may be utilized together or separately and may be applied at the terminal or central computer as indicated in the approved system design to ensure communications control;

(D) Manual procedures that provide for secure access to the system with minimal risk to household or retailer accounts. Manual procedures may include the utilization of manager identification codes in obtaining telephonic authorization from the central computer system; requirements for separate entry with audio response unit verification and authorization number; and/or the utilization of 24 hour hotline telephone numbers to authorize transactions.

(iii) Message validation shall include but shall not be limited to:

(A) Message format checks for completeness of the message, correct order of data, existence of control characters, number and size of data fields and appropriate format standards as specified in the approved system design;

(B) Range checks for acceptable date fields, number and valid account numbers, purchase and refund upper limitations in order to prevent and control damage to the system accounts;

(C) Reversals of messages that are not fully processed and recorded.

(iv) Administrative and operational procedures shall ensure that:

(A) Functions affecting an account balance are separated or dually controlled during processing and when requesting Federal reimbursement through a concentrator bank under the provisions of paragraph (i) of this section. These functions may include but are not limited to the set up of accounts, transmittal of funds to and from accounts, access to files to change account records, and transmittal of retailer deposits to the ACH network or other means approved by FNS for crediting retailer bank accounts;

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(B) Passwords, identity codes or other security procedures must be utilized by State agency or local personnel and at data processing centers;

(C) Software programming changes shall be dual controlled to the extent possible;

(D) System operations functions shall be segregated from reconciliation duties;

(v) A separate EBT security component shall be incorporated into the State agency Security Program for Automated Data Processing (ADP) systems where appropriate and as prescribed under §277.18(p) of this chapter. The periodic risk analyses required by the Security Program shall address the following items specific to an EBT system:

(A) EBT system vulnerability to theft and unauthorized use;

(B) Completeness and timeliness of the reconciliation system;

(C) Vulnerability to tampering with or creating household accounts;

(D) Erroneous posting of issuances to household accounts;

(E) Manipulation of retailers' accounts such as creation of false transactions or intrusion by unauthorized computer users;

(F) Capability to monitor systematic abuses at POS terminals such as debits for a complete allotment, excessive manual issuances, and multiple manual transactions at the same time. Such monitoring may be accomplished through the use of exception reporting;

(G) Tampering with information on the ACH tape or similar information utilized in a crediting method approved by FNS; and,

(H) The availability of a complete audit trail. A complete audit trail shall, at a minimum, be able to provide a complete transaction history of each individual system activity that affects an account balance. The audit trail shall include the tracking of issuances from the Master File and Issuance File, network transactions from point-of-sale terminals to EBT central computer database and system file updates.

(vi) The State agency shall incorporate the contingency plan approved by FNS prior to pilot implementation and subsequently updated as part of

the Expansion Implementation Plan into the Security Program.

(4) *System ease-of-use.* (i) For all system users, the State agency shall ensure that the system:

(A) Minimizes the number of separate steps required to complete a transaction;

(B) Minimizes the number of codes or commands needed to make use of the system;

(C) Makes available clear and comprehensive account balance information with a minimum number of actions necessary;

(D) Provides training and instructions for all system users especially those persons with disabilities;

(E) Makes available prompts on POS terminals or balance only terminals, where appropriate;

(F) Identifies procedures for problem resolution;

(G) Provides reasonable accommodation for the needs of households with disabilities in keeping with the Americans with Disabilities Act of 1990.

(ii) In addition to the requirements of paragraph (h)(4)(i) of this section, the State agency shall ensure that retailers utilizing the EBT system:

(A) Have available manual backup procedures;

(B) Can obtain timely information on daily credits to their banks;

(C) Have available deposit information in a format readily comparable to information maintained in the store; and

(D) Have available instructions on resolving problems with equipment and retailer accounts.

(5) *Third party processors.* Third party processors are financial institutions, cardholder authorization processors other than the party with which the State agency has contracted for EBT services, and food retailers driving their own terminals that are capable of relaying electronic transactions to a central database computer for authorization. The State agency shall afford retailers the opportunity to use third party processors and shall provide interface specifications and certification standards in order for the third party processor to participate in the EBT system.

(i) In order to participate in a Food Stamp Program EBT system, a third party processor must be able to meet all third party interface specifications and certification standards associated with this section. The State agency shall publish the third party interface specifications prior to implementation of the EBT system to enable third party processors to access the database. Third party processors shall undergo functional and acceptance tests as specified by the State agency;

(ii) Third party processors shall be liable for transactions until the transaction has been electronically accepted by the contracted vendor or an intermediate processing facility;

(iii) The State agency shall ensure that third party processors and food retailers driving their own terminals comply with this section and all applicable Food Stamp Program regulations.

(6) *Minimum card requirements.* (i) The State agency shall ensure that the following information is printed on the card:

(A) The address of the office where a card can be returned if found or no longer in use;

(B) The statement of nondiscrimination which reads as follows: "This is an equal opportunity program. If you believe that you have been the victim of discrimination in your efforts to receive food stamp benefits because of your race, color, national origin, age, sex, disability, religious belief, or political beliefs, write immediately to the Administrator, Food and Nutrition Service, 3101 Park Center Drive, Alexandria, Virginia 22302." In lieu of printing the required information on the EBT card, the State agency shall provide each household a card jacket or sleeve containing the nondiscrimination statement.

(ii) FNS reserves the right to require State agencies to place a Department logo on the EBT card and/or sleeves or jackets.

(iii) EBT cards and/or sleeves or jackets shall not contain the name of any State or local official. EBT informational materials shall not indicate association with any political party or other political affiliation.

(iv) State agencies may require the use of a photograph of one or more household members on the card. If the State agency does require the EBT cards to contain a photo, it must establish procedures to ensure that all appropriate household members or authorized representatives are able to access benefits from the account as necessary.

(7) *POS terminals.* POS terminals shall meet the following requirements:

(i) Balance information shall not be displayed on the screen of the POS terminal except for balance-only inquiry terminals;

(ii) PINs shall not be displayed at the terminal; and

(iii) PIN encryption shall occur from the point of entry in a manner which prevents the unsecured transmission between any point in the system.

(8) *Performance bonding.* The State agency may require a performance bond in accordance with §277.8 of this chapter or utilize other contractual clauses it deems necessary to enforce the requirements of this section.

(9) *Minimum transaction set.* At a minimum, the State agency shall ensure that the EBT system, including third party processors and retailers driving their own terminals, is capable of providing for authorizing or rejecting purchases, refunds or customer credits, voids or cancellations, key entered transactions, balance inquiries and settlement or close-out transactions. The system must be capable of completing this transaction set across State borders nationwide in accordance with standards specified in paragraph (h)(10) of this section.

(10) *Interoperability.* State agencies must adopt uniform standards to facilitate interoperability and portability nationwide. The term "interoperability" means the EBT system must enable a coupon issued in the form of an EBT card to be redeemed in any State. The term "portability" means the EBT system must enable a coupon issued in the form of an EBT card to be used in any State by a household to purchase food at a retail food store or a wholesale food concern approved under the Food Stamp Act of 1977. The standards must include the following:

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(i) *EBT system connectivity.* State agencies are responsible for establishing telecommunications links, transaction switching facilities and any other arrangements with other State agencies necessary for the routing of interoperable transactions to such other State EBT authorization systems. State agencies are also responsible for facilitating the settlement of such interoperable transactions and the handling of adjustments. These connections need not be direct connections between State authorization systems but may be facilitated through agreements and linkages with other designated agents or third party processors. All State agencies must agree to the timing and disposition of disputes, error resolution, and adjustments in accordance with Department regulations at §273.13(a), §273.15(k) and paragraph (f) of this section. State agencies or their designated agents must draw funds from State food stamp accounts for food stamp benefits transacted by that State's food stamp recipients, regardless of where benefits were transacted.

(ii) *Message format.* Each authorization system must use the International Organization for Standards (ISO) 8583 message format, modified for EBT, in a version mutually agreed to between the authorization agent and the party connected for all transactions. Each authorization system must process each financial transaction as a single message financial transaction, except for pre-authorized transactions and reversals, processed as paired transactions.

(iii) *Card Primary Account Number (PAN) Requirements.* Track 2 on each card shall contain the PAN. Each Government entity must obtain an Issuer Identification Number (IIN) from the American Banker's Association (ABA). The IIN should be included as the first six digits of the Primary Account Number. The PAN must comply with International Organization for Standards (ISO) 7812, Identification Cards—Numbering System and Registration Procedures for Issuer Identifiers. Each State agency must be responsible for generating, updating, and distributing IIN files of all States to each retailer, processor, or acquirer that is directly

connected to the State's authorization system. Each terminal operator that uses a routing table for routing acquired transactions must, within seven calendar days of receiving an IIN routing table update, modify its routing tables to reflect the updated routing information.

(iv) *Third Party Processor Requirements.* Each Third Party Processor or terminal operator must have primary responsibility and liability for operating the telecommunications and processing system (including software and hardware) through which transactions initiated at POS terminals it owns, operates, controls or for which it has signed an agreement to accept EBT transactions, are processed and routed, directly or indirectly, to the appropriate State authorization system. Each terminal operator must maintain the necessary computer hardware and software to interface either directly with a State authorization system or with a third party service provider to obtain access to one or more State authorization systems. Each terminal operator must establish a direct or indirect telecommunications connection for the routing of transactions to the State authorization system or to a processor directly or indirectly connected to the State authorization system.

(v) *REDE File.* The State agency must ensure that their EBT system verifies FNS retailer numbers for all interstate transactions against the National REDE file of all FNS EBT retailers to validate these transactions.

(1) *Waivers.* The State agency may request a waiver from the Department for a temporary exemption from compliance with the requirements for interoperability and portability, as found in this section, if they can adequately demonstrate that: (1) There are unusual technological barriers to the implementation of interoperability; and (2) it is in the best interest of the FSP to grant the waiver. All waivers must specify a date by which the State agency will achieve interoperability and portability.

(j) *Concentrator bank responsibilities.* The concentrator bank shall be a Federally insured financial institution or other entity acceptable to the Federal

Reserve which has the capability to take retailer credits and/or debits, obtained from the EBT system operator, and transmit them to the ACH network operated by the Federal Reserve or through another process for crediting retailers approved by FNS. Transmittal shall be by tape or on-line in a format suitable for the Automated Clearinghouse (ACH) or as approved by FNS.

(1) The minimum functions of the concentrator bank are:

(i) Preparing a daily ACH tape or other crediting process approved by FNS with information on benefits redeemed and creditable to each retailer;

(ii) Transferring the ACH tape or other crediting process approved by FNS to the Federal Reserve or other entity approved by FNS;

(iii) Initiating and accepting reimbursement from the appropriate U.S. Treasury account via the Payment Management System of the U.S. Department of Health and Human Services (HHS) or other payment process approved by FNS. At the option of FNS, the State agency may designate another entity as the initiator of reimbursement for food stamp redemptions provided the entity is acceptable to FNS and HHS;

(iv) Cooperating in the reconciliation of discrepancies and error resolution when necessary.

(2) With the approval of FNS, another procedure, other than the ACH system, may be utilized to credit retailer accounts and/or debit FNS' account, if it meets the needs of FNS and the EBT system.

(3) The State agency shall be liable for any errors in the creation of the ACH tape or its transmission. The State agency may transfer the liability associated with creation of the ACH tape, its transmission or another crediting process approved by FNS as appropriate to the EBT system operator or the concentrator bank. Appropriate system security administrative and operational procedures shall be instituted in accordance with paragraph (h)(3) of this section.

(k) *Reconciliation, management reporting, examinations and audits.* The EBT system shall provide reports and documentation pertaining to the following:

(1) *Reconciliation.* Reconciliation shall be conducted and records kept as follows:

(i) Reconciliation of benefits posted to household accounts on the central computer against benefits on the Issuance Authorization File;

(ii) Reconciliation of individual household account balances against account activities on a daily basis;

(iii) Reconciliation of each individual retail store's food stamp transactions per POS terminal and in total to deposits on a daily basis;

(iv) Verification of retailer's credits against deposit information entered into the ACH network;

(v) Reconciliation of total funds entered into, exiting from, and remaining in the system each day;

(vi) Maintenance of audit trails that document the full cycle of issuance from benefit allotment posting to the State issuance authorization file through posting to point-of-sale transactions at retailers through settlement of retailer credits.

(2) *Management reports.* The State agency shall require the EBT system to provide reports that enable the State agency to manage the system. The reports shall be available to the State agency or FNS as requested on a timely basis and consist of:

(i) Information on how the system operates relative to its performance standards, the incidence, type and cause of system problems, and utilization patterns.

(ii) Information regarding transactions and other information specified by FNS during system development which is necessary to conduct compliance investigations. At a minimum exception reports shall be able to isolate transaction data by individual retailers and households. Exception reports shall be provided to the appropriate FNS Compliance Branch Area office on a quarterly basis. The Compliance Officer in Charge (COIC) shall be permitted to require that the reports be made available on either a more or less frequent basis.

(3) *Pilot project reports.* The State agency shall provide quarterly reports as described in paragraph (c)(4) of this section during the pilot project.

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(4) *Program reporting.* When benefits are initially issued through an EBT system, the State agency shall report as required by FNS in §274.4 and in accordance with the FNS instructions specific to EBT issuances.

(5) *Examinations and audits.*

(i) The state agency must obtain an examination by an independent auditor of the transaction processing of the State EBT service provider regarding the issuance, redemption, and settlement of Food Stamp Program benefits. The examination must be done at least annually and the report must be completed ninety days after the examination period ends. Subsequent examinations must cover the entire period since the previous examination. Examinations must follow the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards No. 70, Service Organizations (SAS No. 70), requirements for reports on controls placed in operation and tests of the operating effectiveness of the controls.

(ii) The examination report must include a list of all States whose systems operate under the same control environment. Auditors conducting the examination must follow EBT guidance contained in the Office of Management and Budget (OMB) Circular A-133 Compliance Supplement to the extent the guidelines refer to FSP benefits. (For availability of OMB Circulars referenced in this section, see 5 CFR 1310.3.)

(iii) The State agency must retain a copy of the SAS No.70 examination report.

(iv) The State agency shall respond to written requests from the Food and Nutrition Service (FNS), USDA Office of the Inspector General (OIG), or the General Accounting Office (GAO) for completed SAS No.70 examination reports by providing the report within thirty days of receipt of the written request.

(v) The State agency shall respond to written requests from FNS, OIG, or GAO to view auditor's workpapers from SAS No. 70 reports by arranging to have workpapers made available within thirty days of receipt of the written request.

(vi) FNS and the USDA OIG shall rely on SAS No. 70 reports on EBT transaction processing services provided by contractors to the State. FNS and USDA OIG reserve the right to conduct other reviews or audits if necessary.

(vii) EBT services provided directly by the State are not subject to SAS No. 70 examination requirements of this section but remain subject to the single audit requirements at 7 CFR 277.7 and the Office of Management and Budget Circular A-133.

(1) *Federal Financial Participation.* (1) The cost of administering statewide benefit issuance after implementation of the EBT system shall be funded at the regular Federal financial participation rate up to the level of the current coupon issuance costs, as prescribed in paragraph (c)(3) of this section.

(2) Enhanced funding for coupon issuance activities that a State agency incurs on Indian Reservations shall be accommodated within the issuance cap.

(3) The State agency shall comply with the provisions set forth under 7 CFR 277.18 and appendix A of 7 CFR 277.18 in determining and claiming allowable costs for the EBT system.

(4) Access to system documentation, including cost records of contractors or subcontractors shall be made available and incorporated into contractual agreements in accordance with §277.18(k) of this chapter.

(5) The State agency shall adjust the issuance cap, once the cap is approved by FNS, as follows:

(i) The food stamp case load utilized in estimating annual budgetary needs under the cap shall be adjusted quarterly by the number of cases actually issued benefits through the EBT system and the coupon issuance systems operating within the State. Quarterly costs adjusted by the number of food stamp cases actually issued benefits during the quarter shall accumulate by each Federal fiscal quarter until the close of the fiscal period to which it applies;

(ii) The annual issuance cap adjustment shall be based on the percentage change in the Gross National Product Implicit Price Deflator index (GNP price deflator). The index is reported monthly by the U.S. Department of

Commerce, Bureau of Economic Analysis. The percentage change shall be calculated from the percentage change in the index between the first quarter of the current calendar year and the first quarter of the previous year. This data will be made available to State agencies by FNS from the June report published by the Bureau of Economic Analysis. The case-month cap for subsequent Federal fiscal years shall be obtained by revising the previous year's cap based on the most recent inflation information for that period. The State agency shall then multiply the revised issuance cap from the prior year by the percentage change in inflation indicated by the most recent GNP price deflator;

(iii) The yearly amortized cost associated with pre-operational costs (i.e., design, development) shall be determined at the end of the assignment period established in accordance with paragraph (c)(3)(iv) of this section and assigned retroactively to the case-month costs of each prior year of operation. If such assignment puts the State agency over the issuance cap of all prior years of operation, claims shall be made as appropriate.

(m) *Re-presentation.* The State agency shall ensure that a manual purchase system is available for use during times when the EBT system is inaccessible.

(1) Under certain circumstances, when a manual transaction occurs due to the inaccessibility of the host computer and the transaction is rejected because insufficient funds are available in a household's account, the State agency may permit the re-presentation of the transaction during subsequent months. At the State agency's option, re-presentation may be permitted within the EBT system as follows:

(i) Re-presentation of manual vouchers when there are insufficient funds in the EBT account to cover the manual transaction may be permitted only under the following circumstances:

(A) The manual transaction occurred because the host computer was down and authorization was obtained by the retailer for the transaction; or

(B) The manual transaction occurred because telephone lines were down.

(ii) Re-presentation of manual vouchers shall not be permitted when the EBT card, magnetic stripe, PIN pad, card reader, or POS terminal fails and telephone lines are operational. Manual transactions shall not be utilized to extend credit to a household via re-presentation when the household's account balance is insufficient to cover the planned purchase.

(iii) The State agency may debit the benefit allotment of a household following the insufficient funds transaction in either of two ways:

(A) Any amount which equals at least \$10 or up to 10% of the transaction. This amount will be deducted monthly until the total balance owed is paid-in-full. State agencies may opt to re-present at a level that is less than the 10% maximum, however, this lesser amount must be applied to all households.

(B) \$50 in the first month and the greater of \$10 or 10% of the allotment in subsequent months until the total balance owed is paid-in-full. If the monthly allotment is less than \$50, the State shall debit the account for \$10.

(2) The State agency shall establish procedures for determining the validity of each re-presentation and subsequent procedures authorizing a debit from a household's monthly benefit allotment. The State agency may ask households to voluntarily pay the amount of a re-presented transaction or arrange for a faster schedule of payment than identified in paragraph (1)(1)(iii) of this section.

(3) The State agency shall ensure that retailers provide notice to households at the time of the manual transaction that re-presentation may occur if there are insufficient benefits in the account to cover the transaction. The statement shall be printed on the paper voucher or on a separate sheet of paper. The State agency shall also provide notice to the household prior to the month when a benefit allotment is reduced when a re-presentation is necessary. Notice shall be provided to the household for each insufficient transaction that is to be re-presented in a future month. The notice shall be provided prior to the month it occurs and shall state the amount of the reduction in the benefit allotment.

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(4) The Department shall not accept liability under any circumstances for the overissuance of benefits due to the utilization of manual vouchers, including those situations when the host computer is inaccessible or telecommunications lines are not functioning. However, the State agency, in consultation with authorized retailers and with the mutual agreement of the State agency's vendor, if any, may accept liability for manual purchases within a specified dollar limit. Costs associated with liabilities accepted by the State agency shall not be reimbursable.

(5) The State agency shall be strictly liable for manual transactions that result in excess deductions from a household's account.

(n) *Ownership rights and procurement requirements.* (1) The State agency shall comply with the software and automated data processing equipment ownership rights prescribed under § 277.13 and § 277.18(l) of this chapter.

(2) The State agency shall comply with the procurement standards prescribed under § 277.18(j) of this chapter. Under service agreements, the procurement of equipment and services which will be utilized in a Food Stamp EBT system shall be conducted in accordance with the provisions set forth under § 277.18(f) of this chapter.

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### PART 275—PERFORMANCE REPORTING SYSTEM

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EDITORIAL NOTE: OMB control numbers relating to this part 275 are contained in § 271.8.

### Subpart A—Administration

#### § 275.1 General scope and purpose.

(a) Under the Food Stamp Act, each State agency is responsible for the administration of the Food Stamp Program in accordance with the Act, Regulations, and the State agency's plan of operation. To fulfill the requirements of the Act, each State agency shall have a system for monitoring and improving its administration of the program. The State agency is also responsible for reporting on its administration to FNS. These reports shall identify program deficiencies and the specific administrative action proposed to meet the program requirements established by the Secretary. If it is determined, however, that a State has failed without good cause to meet any of the program requirements established by the Secretary, or has failed to carry out the approved State plan of operation, the Department shall suspend and/or disallow from the State