

# Rules and Regulations

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## DEPARTMENT OF AGRICULTURE

### Food and Nutrition Service

#### 7 CFR part 274

RIN 0584-AD48

#### Supplemental Nutrition Assistance Program, Regulation Restructuring: Issuance Regulation Update and Reorganization To Reflect the End of Coupon Issuance Systems

**AGENCY:** Food and Nutrition Service, USDA.

**ACTION:** Direct final rule.

**SUMMARY:** This direct final rule updates and reorganizes the Supplemental Nutrition Assistance Program (SNAP) (formerly the "Food Stamp Program") regulations pertaining to the issuance of SNAP benefits.

These changes to the SNAP regulations are put forth to account for the replacement of the paper coupon issuance system with the Electronic Benefits Transfer (EBT) system as the nationwide method of distributing benefits to program recipients. This action is in accordance with the Food, Conservation, and Energy Act of 2008, Public Law 110-246, (hereinafter referred to as "the 2008 Farm Bill") which prohibits State agencies from issuing paper food stamp coupons and makes EBT cards the sole method of benefit delivery. The 2008 Farm Bill also de-obligated paper coupons as legal tender as of June 18, 2009. Therefore, paper coupons no longer have any value and can no longer be redeemed at any store.

In line with EBT implementation and the elimination of coupons, these changes remove coupon issuance and EBT pilot regulations that are no longer applicable, revise regulatory language to more appropriately reflect the new EBT issuance system and the Program's new name, and reorganize sections to

develop a more cohesive set of issuance regulations.

**DATES:** This rule will become effective on June 11, 2010, unless the Department receives written adverse comments or notices of intent to submit adverse comments postmarked on or before May 12, 2010. If adverse comments within the scope of the rulemaking are received, the Department will publish timely notification of withdrawal of this rule in the **Federal Register**.

**ADDRESSES:** The Food and Nutrition Service (FNS), USDA, invites interested persons to submit comments on this direct final rule. Comments may be submitted through the Federal eRulemaking Portal: Go to <http://www.regulations.gov>. Follow the online instructions for submitting comments.

Comments submitted in response to this rule will be included in the record and will be made available to the public. Please be advised that the substance of the comments and the identity of the individuals or entities submitting the comments will be subject to public disclosure. FNS will make the comments publicly available on the Internet via <http://www.regulations.gov>.

**FOR FURTHER INFORMATION CONTACT:** Address any questions regarding this rulemaking to Andrea Gold, Chief, Retailer Management and Issuance Branch, Benefit Redemption Division at Food and Nutrition Service, USDA, 3101 Park Center Drive, Alexandria, Virginia 22302 or by telephone at (703) 305-2456 during regular business hours (8:30 a.m. to 5:30 p.m.) Monday through Friday.

#### SUPPLEMENTARY INFORMATION:

##### Background

The Food Stamp Program was permanently authorized in 1964, Public Law 88-525. The Program first began using paper coupons instead of "stamps" to issue benefits in 1965. These initial coupons were then phased out in 1975 and became known as the "old series" coupons. The subsequent coupons remained essentially unchanged until they expired on June 18, 2009. Although these coupons resembled banknotes in size, the various colors, designs and booklets they came in were identifiable by others as "food stamps." Furthermore, retailers were required to provide change above 99 cents in the form of coupons as well to ensure that benefits were used solely for eligible

food items and not traded for cash. The coupon issuance process was used for almost 40 years, until 2004 when the Electronic Benefits Transfer (EBT) system implementation was completed nationwide. Now, issuing coupons to households and providing change is no longer a factor. The EBT system works similarly to a debit card system and deducts the exact amount of the purchase from the households' EBT account. Furthermore, EBT cards look and operate just like commercial debit cards, allowing recipients more anonymity at the checkout counter.

Because coupons did not have an expiration date, they remained obligations of the Federal government even after EBT implementation was completed and continued to be redeemable at all FNS authorized stores. However, the ability to redeem coupons ended as of June 18, 2009, the expiration date set by the 2008 Farm Bill. In addition, Section 4115 of the 2008 Farm Bill amended Section 7 of the Food and Nutrition Act of 2008 by adding subsection (g)(3)(A), 7 U.S.C. 2016 (g)(3)(A), to prohibit the issuance of coupons and other coupon-related documents, making EBT the sole method of benefit delivery. This law also changed the name of the "Food Stamp Program" to the "Supplemental Nutrition Assistance Program (SNAP)," to bring the title of the Program in line with the modern version of issuance and the focus on nutrition. Similarly, it is also time to bring the Program's regulations in line with current issuance requirements and practices.

Since EBT is now the sole method for issuing and exchanging benefits, the revisions being promulgated by this rulemaking better reflect the new EBT reality. As such, the following changes are being made to 7 CFR part 274, previously entitled "Issuance and Use of Coupons,": Removing coupon issuance and EBT pilot regulations that are no longer applicable, revising regulatory language to more appropriately connote the new EBT issuance system, and reorganizing sections to develop a more cohesive set of issuance regulations.

#### Reducing Issuance System Options to On-Line or Off-Line EBT Systems

At 7 CFR 274.3, the Department will eliminate regulatory language regarding obsolete issuance system options for the delivery of SNAP benefits to

households. The system options that will be removed are authorization document, direct access, and mail issuance systems for the delivery of coupons. These systems were legislatively eliminated as options for State agencies by the 2008 Farm Bill. State agencies will continue to have the option to implement either an on-line or off-line EBT system for the delivery of benefits.

#### Removing Outdated Coupon Issuance and EBT Pilot Regulations

Throughout 7 CFR part 274, the Department is deleting language and several sections which directly address State agency responsibilities regarding issuance, replacement, storage, shipping, inventory management, reconciliation, and reporting requirements for paper coupons.

The Department is also removing regulations requiring the issuance of identification (ID) cards to each certified household that are no longer applicable. SNAP benefits are now electronically deposited into a household's EBT account on a monthly basis. Therefore, ID is no longer needed as proof of program eligibility to pick up benefits. Furthermore, to access benefits in their EBT account, households must set up a Personal Identification Number (PIN) known only to household members and those authorized to make SNAP purchases on the household's behalf. A PIN ensures that only authorized persons can conduct SNAP transactions. In addition, to account for the elimination of ID cards, the required use of specially-marked ID cards for certain households eligible for prepared meals and the purchase of hunting and fishing equipment is being replaced with a broader requirement that State agencies implement a method to ensure that only

eligible households are able to participate in such programs.

Border store language, requiring State agencies to provide Point-of-Sale (POS) equipment to stores that border an EBT system area, is also being removed. This requirement was intended to ensure adequate benefit access to SNAP clients who lived in areas that bordered a non-EBT State or a State that was not interoperable with the bordering State's EBT system. However, the Electronic Benefit Transfer Interoperability and Portability Act of 2000, Public Law 106-171, required State EBT systems to be interoperable nationwide by October 2002. Because every State agency is now operating a Statewide EBT system that is interoperable with all other State EBT systems, the requirement that a State provide POS equipment to border stores is no longer relevant. However, the requirement that State agencies ensure that procedures are in place to process manual vouchers in border stores deemed necessary for client access still remains in instances when the system is down or for those retailers that do not have POS equipment.

Finally, the Department is revising language pertaining to EBT system pilot projects and expansion. EBT is no longer in the pilot stage, but instead has been in the operation and maintenance stage for all State agencies since nationwide implementation was completed in June 2004. As a result, EBT conversions have replaced pilots for the ongoing operation of State EBT systems. Conversions occur when a State EBT procurement results in the selection of a new vendor for EBT services. When this occurs, the State agency must submit a conversion plan instead of a pilot project implementation plan to the Department

for approval to address how the State intends to transition from the current system to the new one. Therefore, the Department is making it clearer that pilot and expansion requirements pertain only to new technology or enhancements that significantly change the architecture of issuing benefits electronically.

#### Nomenclature Changes

The Department is replacing Food Stamp Program and coupon terminology with new SNAP and EBT terminology throughout the issuance regulations at 7 CFR part 274. Again, these changes reflect similar updates in the Food and Nutrition Act of 2008, 7 U.S.C. 2011, *et seq.*, and the replacement of the coupon issuance system with EBT systems.

#### Reorganization

Henceforth, EBT will be synonymous with SNAP issuance rather than an exception to the usual issuance process. As a result, EBT, as an issuance method, will no longer be separated from overall issuance regulations. This will eliminate overlapping requirements that are currently found in both the coupon and EBT sections. It will also eliminate confusion in areas where coupon issuance requirements do not apply to EBT issuance. The Department is also making technical corrections for clarity, such as adding missing words or correcting inaccurate phrasing. Please note that the Department is changing the citation for most paragraphs throughout Part 274. Furthermore, some regulations are being moved to different sections and some sections are being created or renamed to better reflect the content. The following Distribution Table indicates how individual sections will be reorganized:

DISTRIBUTION TABLE—ISSUANCE AND USE OF BENEFITS

CFR	Direct final rule
274.1—State agency issuance responsibility .....	274.1—Issuance System Approval Standards.
274.1(b)(1)–(3) .....	274.1(d)(1)–(3).
274.1(b)(3)(i)–(ii)(B) .....	Removed.
274.1(b)(4)–274.1(b)(5) .....	Removed.
274.1(c)–(d) .....	Removed.
274.1(e) .....	274.1(f).
274.2—Providing benefits to participants .....	
274.2(e)–(g) .....	Removed.
274.3—Issuance systems .....	Moved to sections 274.1 and 274.2.
274.3(a)(1)–(a)(3) .....	Removed.
274.3(a)(4)–(a)(5) .....	274.1(b).
274.3(b) .....	Removed.
274.3(c) .....	274.1(c).
274.3(d)(1)–(d)(4) .....	274.1(h).
274.3(d)(5) .....	Removed.
274.3(d)(6) .....	274.2(b).
274.3(e) .....	Removed.
274.4—Reconciliation and Reporting .....	
274.4(a) .....	Removed.

## DISTRIBUTION TABLE—ISSUANCE AND USE OF BENEFITS—Continued

CFR	Direct final rule
274.4(b)(1) .....	Removed.
274.4(b)(2) .....	274.4(c)(1).
274.4(b)(3) .....	Removed.
274.4(b)(4) .....	274.4(c)(2).
274.5—Reserved .....	274.5—Record retention and forms security.
274.6—Replacement issuances to households .....	274.6—Replacement issuances and cards to households.
274.6(a)(1)(i)—(a)(1)(ii) .....	Removed.
274.6(a)(1)(iv) .....	Removed.
274.6(a)(2) .....	Removed.
274.6(a)(3) .....	274.6(a)(2).
274.6(a)(4) .....	Removed.
274.6(b) .....	274.6(a)(3).
274.6(b)(2)(i)—(b)(2)(ii) .....	Removed.
274.6(b)(2)(iii) .....	274.6(a)(3)(ii).
274.6(b)(2)(iv) .....	Removed.
274.6(b)(3) .....	274.6(a)(3)(iii).
274.6(c) .....	274.6(a)(4).
274.6(c)(3)(i)—(c)(3)(iv) .....	Removed.
274.6(d)—(d)(1) .....	274.6(a)(5)—(a)(5)(i).
274.6(d)(2)(i)—(d)(2)(ii) .....	Removed.
274.6(d)(1)(iii) .....	274.6(a)(5)(ii).
274.6(d)(2) .....	274.6(a)(5)(iii).
274.6(e) .....	Removed.
274.6(f) .....	274.6(a)(6)(i).
274.6(f)(1) .....	Removed.
274.6(f)(2) .....	274.6(a)(6)(ii).
274.6(f)(3)—(4) .....	Removed.
274.6(g) .....	Removed.
274.6(h)—(h)(2) .....	274.6(a)(7)—(a)(7)(ii).
274.6(h)(2)(i)—(ii) .....	Removed.
274.6(h)(3) .....	Removed.
274.6(h)(4) .....	274.6(a)(7)(iii).
274.6(h)(4)(i)—(h)(4)(iii) .....	Removed.
274.7 Coupon Management .....	Removed.
274.8—Responsibilities of Coupon Issuers .....	Removed.
274.9—Closeout of Coupon Issuer .....	Removed.
274.10—Use of Identification Cards and Redemption of Coupons by Eligible Households.	274.7—Benefit Redemption by Eligible Households.
274.10(a)—(a)(3) .....	Removed.
274.10(a)(4)(i)—(a)(4)(ii) .....	274.7(g)(1)—(g)(2).
274.10(a)(4)(iii) .....	274.7(g)(4)(ii).
274.10(a)(4)(iv) .....	274.7(h).
274.10(a)(5) .....	Removed.
274.10(b)—(c) .....	Removed.
274.10(d) .....	274.7(a).
274.10(e) .....	274.7(g)(1).
274.10(f)—(f)(3) .....	274.7(g)(3)—(g)(3)(iii).
274.10(g) .....	274.7(g)(4)(i).
274.10(h) .....	Removed.
274.10(i) .....	274.7(b).
274.10(j) .....	Removed.
274.11—Issuance and Inventory Record Retention and Forms Security	274.5—Record Retention and Forms Security.
274.11(a) .....	274.5(a).
274.11(a)(1) .....	Removed.
274.11(a)(2) .....	274.5(a)(ii).
274.11(b) .....	274.5(b).
274.11(c)(1)(i) .....	274.5(c).
274.12—EBT System Approval Standards .....	274.8—Functional and Technical EBT System Requirements.
274.12(a) .....	Removed.
274.12(b)(1) .....	274.1(f).
274.12(b)(2)—(b)(4) .....	274.1(g)(1)—(3).
274.12(c) .....	274.1(f)(1).
274.12(c)(2)—(3) .....	274.1(f)(2)—(3).
274.12(c)(4) .....	274.1(f)(1)(iii).
274.12(d) .....	274.1(f)(1)(iv).
274.12(e)—(e)(3) .....	274.8(a)—(a)(3).
274.12(e)(4)(i) .....	274.3(e)(1)—(e)(2).
274.12(e)(4)(ii)—(vi) .....	274.3(e)(3)—(7).
274.12(e)(4)(vii)—(e)(4)(vii) .....	274.1(j).
274.12(f)(1) .....	274.7(c).
274.12(f)(2) .....	274.7(d)(1)—(2).
274.12(f)(3) .....	274.7(d)(3) and 274.8(b)(7).

## DISTRIBUTION TABLE—ISSUANCE AND USE OF BENEFITS—Continued

CFR	Direct final rule
274.12(f)(4) .....	274.2(d).
274.12(f)(4)(i)–(f)(4)(iii) .....	274.2(g).
274.12(f)(5)(i) .....	274.2(f).
274.12(f)(5)(ii)–(v) .....	274.6(b).
274.12(f)(6) .....	Removed.
274.12(f)(7) .....	274.2(h).
274.12(f)(8) .....	274.2(a).
274.12(f)(9) .....	274.7(e) and 274.7(f)(2).
274.12(f)(10) .....	274.2(e).
274.12(g)–(g)(2) .....	274.3(a)–(a)(2).
274.12(g)(3) .....	274.1(g)(4).
274.12(g)(4)–(4)(i) .....	274.7(f)–(f)(1).
274.12(g)(4)(ii) .....	274.3(b).
274.12(g)(5) .....	274.3(a)(3).
274.12(g)(6) .....	274.3(c).
274.12(h)–(h)(4) .....	274.8(b)–(b)(4).
274.12(h)(5) .....	274.3(d).
274.12(h)(6)–(h)(7) .....	274.8(b)(5)–(b)(6).
274.12(g)(8)–(10) .....	274.8(b)(8)–(b)(10).
274.12(h)(11) .....	Removed.
274.12(i) .....	274.8(c).
274.12(j)–(j)(1) .....	274.4(a)–(a)(1)(vi).
274.12(j)(2)–(2)(i) .....	274.4(b).
274.12(j)(2)(ii)–(iii) .....	274.4(b)(ii)–(b)(iii).
274.12(j)(3)–(j)(4) .....	Removed.
274.12(j)(5) .....	274.1(i)(2).
274.12(k) .....	274.1(k).
274.12(l) .....	274.8(d).
274.12(m) .....	274.8(e).
274.12(n) .....	274.1(e).

**Implementation**

In accordance with the parameters set forth in 62 FR 55141 (October 23, 1997), “Use of Direct Final Rulemaking,” this rule will become effective on June 11, 2010, unless the Department receives written adverse comments or notices of intent to submit adverse comments postmarked on or before May 12, 2010.

Adverse comments on regulatory requirements that existed prior to the publication of this rule are not within the scope of this rulemaking. Furthermore, the Department does not have the authority to consider comments on nondiscretionary regulatory changes mandated by the 2008 Farm Bill. Only comments pertaining to discretionary changes in current requirements will be considered. In addition, this rulemaking is intended to address only the provision of the 2008 Farm Bill that requires EBT to be the sole method of benefit delivery. The other EBT and issuance requirements of the 2008 Farm Bill will be addressed in subsequent rulemaking.

**Executive Order 12866**

This rule has been determined to be not significant and was not reviewed by the Office of Management and Budget under Executive Order 12866.

**Executive Order 12372**

SNAP is listed in the Catalog of Federal Domestic Assistance under No. 10.551. For the reasons set forth in the final rule in 7 CFR part 3015, Subpart V and related Notice (48 FR 29115), this Program is excluded from the scope of Executive Order 12372, which requires intergovernmental consultation with State and local officials.

**Executive Order 13132**

Executive Order 13132 requires Federal agencies to consider the impact of their regulatory actions on State and local governments. Where such actions have federalism implications, agencies are directed to provide a statement for inclusion in the preamble to the regulations describing the agency’s considerations in terms of the three categories called for under section (6)(b)(2)(B) of Executive Order 13132. The Department has considered the impact of this rule on State and local governments and has determined that this rule does not have Federalism implications. This rule does not impose substantial or direct compliance costs on State and local governments. Therefore, under Section 6(b) of the Executive order, a federalism summary impact statement is not required.

**Regulatory Flexibility Act**

This rule has been reviewed with regard to the requirements of the Regulatory Flexibility Act (5 U.S.C. 601–612). It has been certified that this direct final rule will not have a significant economic impact on a substantial number of small entities. Departmental Field Offices, retailers participating or applying to participate in the Supplemental Nutrition Assistance Program, State agencies that distribute Supplemental Nutrition Assistance Program benefits and treatment centers, homeless meal providers, group living homes, and other meal services eligible to participate in the Supplemental Nutrition Assistance Program are the entities affected by this change.

**Paperwork Reduction Act**

The Paperwork Reduction Act of 1995 (44 U.S.C. Chap. 35; *see* 5 CFR 1320) requires the Office of Management and Budget (OMB) approve all collections of information by a Federal agency before they can be implemented. Respondents are not required to respond to any collection of information unless it displays a current valid OMB control number. This rule does not contain additional reporting or recordkeeping requirements other than those information collections impacted that

will be submitted or has been previously approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995.

#### Executive Order 12988

This rule has been reviewed under Executive Order 12988, Civil Justice Reform. This rule is intended to have preemptive effect with respect to any State or local laws, regulations or policies which conflict with its provisions. This rule is not intended to have retroactive effect unless so specified in the "Effective Date" paragraph of this preamble. Prior to any judicial challenge to the provisions of this rule or the application of its provisions, all applicable administrative procedures must be exhausted.

#### Public Law 104-4

Unfunded Mandate Reform Act of 1995 (UMRA) Title II of UMRA establishes requirements for Federal agencies to assess the effects of their regulatory actions on State, local, and Tribal governments and the private sector. Under Section 202 of the UMRA, the Department generally must prepare a written statement, including a cost-benefit analysis, for proposed and final rules with "Federal mandates" that may result in expenditures to State, local, or Tribal governments in the aggregate, or to the private sector, of \$100 million or more in any 1 year. When such a statement is needed for a rule, section 205 of the UMRA generally requires the Department to identify and consider a reasonable number of regulatory alternatives and adopt the least costly, more cost-effective or least burdensome alternative that achieves the objectives of the rule. This rule contains no Federal mandates (under the regulatory provisions of Title II of the UMRA) for State, local, and Tribal governments or the private sector of \$100 million or more in any 1 year. This rule is, therefore, not subject to the requirements of sections 202 and 205 of the UMRA.

#### List of Subjects in 7 CFR part 274

Food stamps, Grant programs-social programs, Reporting and recordkeeping requirements.

■ Accordingly, 7 CFR part 274 is revised as follows:

#### PART 274—ISSUANCE AND USE OF PROGRAM BENEFITS

Sec.

- 274.1 Issuance system approval standards.
- 274.2 Providing benefits to participants.
- 274.3 Retailer management.
- 274.4 Reconciliation and reporting.
- 274.5 Record retention and forms security.

274.6 Replacement issuances and cards to households.

274.7 Benefit redemption by eligible households.

274.8 Functional and technical EBT system requirements.

**Authority:** 7 U.S.C. 2011–2036.

**Editorial Note:** OMB control numbers relating to this part 274 are contained in § 271.8.

#### § 274.1 Issuance system approval standards.

(a) *Basic issuance requirements.* State agencies shall establish issuance and accountability systems which ensure that only certified eligible households receive benefits; that Program benefits are timely distributed in the correct amounts; and that benefit issuance and reconciliation activities are properly conducted and accurately reported to FNS.

(b) *System classification.* State agencies may issue benefits to households through any of the following systems:

(1) An on-line Electronic Benefit Transfer (EBT) system in which Program benefits are stored in a central computer database and electronically accessed by households at the point of sale via reusable plastic cards.

(2) An off-line EBT system in which benefit allotments can be stored on a card or in a card access device and used to purchase authorized items at a point-of-sale (POS) terminal without real-time authorization from a central processor.

(c) *Alternative benefit issuance system.*

(1) If the Secretary, in consultation with the Office of the Inspector General, determines that Program integrity would be improved by changing the issuance system of a State, the Secretary shall require the State agency to issue or deliver benefits using another method. The alternative method may be one of the methods described in paragraph (b) of this section. The determination of which alternative to use will be made by FNS after consultation with the State agency. The cost of conversion will be shared by the Department and the State agency in accordance with the cost accounting provision of part 277 of this chapter.

(2) The cost of documents or systems which may be required as a result of a permanent alternative issuance system pursuant to this section shall not be imposed upon retail food firms participating in the Program.

(d) *Contracting or delegating issuance responsibilities.* State agencies may assign to others such as banks, savings and loan associations, and other commercial businesses, the

responsibility for the issuance of benefits. State agencies may permit contractors to subcontract assigned issuance responsibilities.

(1) Any assignment of issuance functions shall clearly delineate the responsibilities of both parties. The State agency remains responsible, regardless of any agreements to the contrary, for ensuring that assigned duties are carried out in accordance with these regulations. In addition, the State agency is strictly liable to FNS for all losses of benefits, even if those losses are the result of the performance of issuance, security, or accountability duties by another party.

(2) All issuance contracts shall follow procurement standards set forth in part 277 of this chapter.

(3) The State agency shall not assign the issuance of benefits to any retail food firm.

(e) *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(1) 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 the SNAP EBT system shall be conducted in accordance with the provisions set forth under § 277.18(f) of this chapter.

(f) *Advance planning documentation.* State agencies must comply with the procurement requirements of part 277 of this chapter for the acquisition, design, development, or implementation of initial and subsequent EBT systems. With certain exceptions detailed in part 277, State agencies must receive prior approval for the design and acquisition of EBT systems through submission of advance planning documents (APDs).

(1) *Pilot project approval requirements.* To the extent the State is moving EBT to new technology or incorporating enhancements or upgrades that significantly change the architecture and interface requirements or functionality of issuing benefits electronically:

(i) The State agency shall comply with the two stage approval process for submitting an EBT system proposal to FNS for approval. The Planning APD shall contain the requirements specified under § 277.18(d)(1) of this chapter, including a brief letter of intent, planning budget, cost allocation plan, and schedule of activities and deliverables.

(ii) 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.

(A) *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 Program participants and households, the number and type of authorized food retailers and authorized retailers bordering the pilot and expanded areas, the SNAP redemption patterns of food retailers, the status of commercial POS deployment and the estimated number of checkout lanes that will require POS equipment; and

(B) *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.

(iii) *Pilot project reporting.* The State agency is required to report to FNS all issues that arise during the pilot period. Reports to FNS shall be provided as problems occur. In instances where the State agency must investigate the issue, FNS must receive the information no later than 1 month after completion of the pilot operations.

(iv) *Expansion requirements.* The pilot and expansion schedule must be delineated in the State agency's approved implementation plan. As part of the plan, the State agency must indicate a suitable pilot area to serve as the basis of the 3-month analysis and reporting, however, expansion can occur simultaneously with pilot operations. Submission of an Advanced Planning Document Update to request FNS approval to implement and operate the EBT system in areas beyond the pilot area is only required in instances where there are substantial changes to the implementation plan. However, if significant problems arise during the pilot period or expansion, the Department can require the roll-out be

suspended until such problems are resolved.

(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. 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 project area:

(i) *Functional demonstration.* A functional demonstration of the functional requirements prescribed in § 274.8 in combination with the system components described by the approved system design is recommended in order to identify and resolve any problems prior to acceptance testing. The Department reserves the right to participate in the functional demonstration if one is conducted. FNS may require that any or all of these tests be repeated in instances where significant modifications are made to the system after these tests are initially completed or if problems that surfaced during initial testing warrant a retest;

(ii) *An acceptance test plan.* The Acceptance Test Plan for the project shall describe the methodology to be utilized to verify that the EBT system complies with 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.

(iii) *An acceptance test report.* The State agency shall provide a separate report after the completion of the acceptance test only in instances where FNS is not present at the testing or

when serious problems are uncovered during the testing that remain unresolved by the end of the test session. The report shall summarize the activities, describe any discrepancies, describe the proposed solutions to discrepancies, and the timetable for their retesting and completion. In addition, the report shall contain the State agency's recommendations regarding implementation of the EBT system.

(iv) *A prototype food retailer agreement.* The State agency shall enter an agreement with each FNS authorized retailer that complies with the requirements under § 274.3.

(v) *An implementation plan.* The implementation plan shall include the following:

(A) A description of the tools, procedures, detailed schedules, and resources needed to implement the 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 from one EBT system to another. In describing this strategy, the plan shall address schedules that avoid disruption of normal shopping patterns and operations of participating households and food retailers. Training of SNAP 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 ongoing training, document updates, equipment maintenance, on-site support and system adjustments, as needed to meet Program requirements; and,

(E) A plan for orderly phase-out of the project and/or for continuing benefit issuance operations if it is demonstrated during the pilot project or conversion operations that the new system is not acceptable.

(vi) *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 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.

(g) *EBT system administration.* (1) 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.

(2) All EBT systems within a State must follow a single 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 different systems have the ability to readily communicate (transaction interchange) with one another.

(3) 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 SNAP 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.

(4) 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 SNAP households will not suffer a significant reduction in their choice of retail food stores and that a sufficient number of retail food stores serving minority language populations are participating.

(h) *Master issuance file.* (1) The State agency shall establish a master issuance file which is a composite of the issuance records of all certified SNAP households. The State agency shall establish the master issuance file in a manner compatible with its system used for maintaining case record information and shall separate the information on the master issuance file into active and inactive case file categories. The master issuance file shall contain all the

information needed to identify certified households, issue household benefits, record the participation activity for each household and supply all information necessary to fulfill the reporting requirements prescribed in § 274.4.

(i) The master issuance file shall be kept current and accurate. It shall be updated and maintained through the use of documents such as notices of change and controls for expired certification periods.

(ii) Before entering a household's data on the master issuance file, the State agency shall review the master issuance file to ensure that the household is not currently participating in, or disqualified from, the Program. If benefits are issued under the expedited service requirements of §§ 273.2(i) of this chapter and 274.2(b), the State agency shall complete as much of the master issuance file review as possible prior to issuing the benefits. Any uncompleted reviews shall be completed after issuance and appropriate corrective action shall be taken to recover overissuance.

(2) State agencies should divide issuance responsibilities between at least two persons to prevent any single individual from having complete control over the authorization of issuances and the issuances themselves. Responsibilities to be divided include maintenance of inventory records, the posting of benefits to an EBT account and preparation of EBT cards and PINs for mailing. If issuance functions in an office are handled by one person, a second-party review shall be made to verify card inventory, the reconciliation of the mail log, and the number of mailings prepared.

(3) State agencies shall establish controls to prevent a household from concurrently receiving benefits through expedited and normal issuance services.

(4) State agencies shall clearly identify issuances in their accountability systems as initial, supplemental, replacement, or restored benefits.

(i) *State monitoring, examinations, and audits.* (1) The State agency's accountability system shall include procedures for monitoring benefit issuers to assure that the day-to-day operations of all benefit issuers comply with these regulations, to identify and correct deficiencies, and to report violations of the Act or regulations to FNS.

(2) 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 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.

(i) 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 SNAP benefits. (For availability of OMB Circulars referenced in this section, see 5 CFR 1310.3.)

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

(iii) 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 Accountability Office (GAO) for completed SAS No. 70 examination reports by providing the report within thirty days of receipt of the written request.

(iv) 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.

(v) 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.

(vi) 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 OMB Circular A-133.

(j) *Compliance Investigations.* State agencies shall provide on-line read-only access to State EBT systems for compliance investigations.

(1) The State agency is required to provide software and telecommunications capability as necessary to FNS Retailer Investigation Branch Area offices, Regional offices and Field offices so that FNS compliance investigators, other appropriate FNS personnel and USDA OIG investigators have access to the

system in order to conduct investigations of program abuse and alleged violations;

(2) The State agency must ensure that FNS compliance investigators and USDA OIG investigators have access to EBT cards and accounts that are updated as necessary to conduct SNAP investigations.

(k) *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.

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

(3) 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.

(4) State agencies may receive one hundred percent Federal funding for the costs they incur for switching and settling all SNAP interstate transactions. For purposes of this section, the term "switching" means the routing of an interstate transaction that consists of transmitting the details of a transaction electronically recorded through the use of an EBT card in one State to the issuer of the card that is in another State; and the term "settling" means movement, and reporting such movement, of funds from an EBT card issuer located in one State to a retail food store, or wholesale food concern, that is located in another State, to accomplish an interstate transaction. The total amount of one hundred percent funding available annually is limited to \$500,000 nationwide. Once the \$500,000 limitation is exceeded, Federal financial participation reverts to the standard fifty percent program reimbursement rate and procedure. To qualify for this funding, the State agency must:

(i) Meet standards of interoperability and portability under § 274.8;

(ii) Sign and submit, in each fiscal year for which the State agency requests enhanced funding, an Interoperability Funding Agreement to comply with the administrative procedures established by the Department. The State agency must submit the signed agreement to the Department before the end of the fiscal year in which costs are incurred in order to qualify for payment for that fiscal year, and

(iii) Submit requests for payment on a quarterly basis after the end of the quarter in which interoperability costs

are incurred, in accordance with the Department's administrative procedures. Requests for payments shall be due February 15 (for the period October through December), May 15 (January through March), August 15 (April through June), and November 15 (July through September). Requests for payment submitted after the required date for a quarter shall not be considered until the following quarter, when such requests for payments are scheduled to be processed.

#### **§ 274.2 Providing benefits to participants.**

(a) *General.* Each State agency is responsible for the timely and accurate issuance of benefits to certified eligible households, including EBT system compliance with the expedited service benefit delivery standard and the normal application processing standards, as prescribed by these regulations. Those households located in rural areas or comprised of elderly or disabled members who have difficulty reaching issuance offices, and households which do not reside in a permanent dwelling or of a fixed mailing address shall be given assistance in obtaining an EBT card. State agencies shall assist these households by arranging for the mailing of EBT cards to them, by assisting them in finding authorized representatives who can act on their behalf, or by using other appropriate means.

(b) *Availability of benefits.* All newly certified households, except those that are given expedited service, shall be given an opportunity to participate no later than 30 calendar days following the date the application was filed. An opportunity to participate consists of providing households with an active EBT card and PIN, and benefits that have been posted to the household's EBT account and are available for spending. State agencies, utilizing a centralized mailing system, must mail EBT cards and PINs, if applicable, in time to assure that the benefits can be spent after they are received but before the 30-day standard expires. A household has not been provided an opportunity to participate within the 30-day standard if the EBT card or PIN is mailed on the 29th or 30th day. For households entitled to expedited service, the State agency shall make benefits available to the household not later than the seventh calendar day following the date of application. State agencies which issue EBT cards by mail shall, at a minimum, use first class mail and sturdy nonforwarding envelopes or packages to send EBT cards to households.

(c) *Combined allotments.* For those households which are to receive a combined allotment, the State agency shall provide the benefits for both months as an aggregate (combined) allotment, or as two separate allotments, made available at the same time, in accordance with the timeframes specified in § 273.2 of this chapter.

(d) *Ongoing households.* State agencies shall establish an availability date for household access to their benefits and inform households of this date. All households shall be placed on an issuance schedule so that they receive their benefits on or about the same date each month. The date upon which a household receives its initial allotment after certification need not be the date that the household must receive its subsequent allotments.

(1) State agencies may stagger issuance throughout the month, or for a shorter period. When staggering benefit delivery, however, State agencies shall not allow more than 40 days to elapse between the issuance of any two allotments provided to a household participating longer than two consecutive, complete months. Regardless of the issuance schedule used, the State agency shall adhere to the reporting requirements specified in § 274.4.

(2) Upon the request of the Tribal organization that exercises governmental jurisdiction over a reservation, the State agency shall stagger the issuance of benefits for eligible households located on reservations for at least 15 days each month.

(3) When a participating household is transferred from one issuance system or procedure to another issuance system or procedure, the State agency shall not permit more than 40 days to elapse between the last issuance under the previous system or procedure, and the first issuance under the new system or procedure. The 40-day requirement does not apply to instances in which actions by recipients, such as failure to submit a monthly report, disrupt benefits. Transfers include, but are not limited to, households being moved into or out of a staggered issuance procedure and households on a fluctuating schedule within a staggered system. If the State agency determines that more than 40 days may elapse between issuances, the State agency shall divide the new issuance into two parts, with one part being issued within the 40-day period, and the second part, or supplemental issuance, being issued on the household's established issuance date in the new system or procedure. The supplemental issuance cannot provide



the household more benefits than the household is entitled to receive.

(4) Notwithstanding the above provisions, in months in which benefits have been suspended under the provisions of § 271.7 of this chapter, State agencies may stagger issuance to certified households following the end of the suspension. In such situations, State agencies may, at their option, stagger issuance from the date issuance resumes through the end of the month or over a five-day period following the resumption of issuance, even if this results in benefits being issued after the end of the month in which the suspension occurred.

(e) *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:

(1) Content which will familiarize each household with the provisions of paragraphs (e) through (h) of this section and § 274.6 and § 274.7;

(2) Notification to the household of the procedures for manual transactions and re-presentation as described in § 274.8(d);

(3) The appropriate utilization and security of the PIN;

(4) 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;

(5) 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. This shall include the statement of non-discrimination found in Departmental Regulation 4300-3 (available from USDA, Office of Civil Rights, Room 326-W, Whitten Building, Washington, DC 20250). Written materials shall be prepared at an educational reading level suitable for SNAP households;

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

(7) 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.

(f) *Personal Identification Number (PIN).* The State agency shall permit

SNAP households to select their PIN. PIN assignment procedures shall be permitted in accordance with industry standards as long as PIN selection is available to clients if they so desire and clients are informed of this option.

(g) *Adjustments.* (1) 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.

(2) 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 POS device. These adjustments may occur after the availability date and may result in either a debit or credit to the household.

(i) *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.

(ii) *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 amount, and advise the household that any amount still owed is subject to collection from the household's next future month's benefits.

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

(B) 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.

(3) 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 (h)(3) of this section.

(h) *Stale account handling.* Stale benefit accounts are those Program benefit accounts which are not accessed for three months or longer.

(1) If EBT accounts are inactive for 3 months or longer, the State agency may store such benefits offline.

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

(ii) 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;

(2) 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 monthly issuance reporting requirements prescribed under § 274.4.

(3) 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. 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.

#### **§ 274.3 Retailer management.**

(a) *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 authorization shall be accommodated by an alternative system (e.g., manual vouchers with preliminary or delayed telephone verification) for redeeming Program benefits from eligible SNAP customers. These retailers include stationary food stores which opt to make home deliveries to SNAP 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 authorization.

(ii) Newly authorized retailers shall have access to the EBT system within 2 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.

(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 SNAP. In addition, if 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. The State agency may choose to charge retailers reasonable fees in the following circumstances:

(i) Cost for the replacement of lost, stolen or damaged equipment;

(ii) The cost of materials and supplies for POS terminals not provided by the State agency;

(iii) Telecommunication costs for all non-EBT use by retailers when lines are provided by the State agency. In addition, State agencies may remove phone lines from retailers in instances where there is significant misuse of the lines.

(3) 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 to define the end of a transaction day for settlement and reconciliation.

(b) *POS deployment.* POS terminals shall be deployed as follows:

(1) For an FNS authorized retailer with Program benefit redemption amounting to 15 percent or more of total food sales, all checkout lanes shall be equipped;

(2) For an FNS authorized retailer with Program benefit redemptions representing less than 15 percent of total food sales, superstores and 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.

(3) For newly authorized retailers, the State agency and 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 previous SNAP redemption activity that could be utilized in determining the initial number of terminals to deploy in newly authorized retailer firms. State agencies will also need to make accommodations for border stores 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. Unauthorized release of redemption information is subject to penalties defined in Section 15 of the Food and Nutrition Act of 2008 (7 U.S.C. 2024).

(4) Any FNS authorized retailer shall be able to submit further evidence that it warrants additional terminals after the initial POS terminals are deployed. SNAP households may also submit evidence to the State agency that additional POS terminals are needed. State agencies may provide retailers with additional terminals above the minimum number required by this paragraph at customer service booths or other locations if appropriate.

(c) *Retailer agreements.* The State agency shall enter into an agreement with each authorized retailer. The retailer agreement shall describe the terms and conditions of participation in the SNAP EBT system. At a minimum, the agreement shall:

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

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

(3) Comply with all Program regulations with respect to retailer participation in the Program and treatment of SNAP households. This shall include specific requirements with respect to the deployment of terminals and the identification of checkout lanes for SNAP customers;

(4) 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.

(d) 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.

(1) In order to participate in a SNAP EBT system, a third party processor must be able to meet all third party interface specifications and certification standards associated with § 274.8. The State agency shall make available to

third party processors 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;

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

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

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

(1) Convey retailer authorization information provided by FNS to the system operator using the Retailer 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 SNAP transactions are updated on a daily basis.

(2) Follow-up on actions taken regarding any disqualification or withdrawal of an authorized retailer from the Program must occur within two business days after receipt;

(3) Add newly authorized retailers or third party processors to the EBT system as prescribed under paragraph (a)(1)(ii) of this section.

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

(5) Monitor retailers to ensure that equipment deployment complies with paragraph (b) of this section;

(6) 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 48 hours;

(7) Ensure that retail store employees are trained in system operation prior to redeeming benefits. Retailer training shall be offered by the State agency and include the provision of appropriate written and program specific materials. Retailers have the option to waive instruction by the State agency if they desire. State agencies shall direct retailers to confirm in writing that they are waiving their option to training;

(8) Conduct adjustments as prescribed under § 274.2(g) of this chapter;

#### **§ 274.4 Reconciliation and reporting.**

(a) *Reconciliation.* State agencies shall account for all issuance through a reconciliation process. 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 SNAP 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 automated clearinghouse (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 POS transactions at retailers through settlement of retailer credits.

(b) *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:

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

(2) Retailer transaction data submitted to FNS on a monthly basis. This data must be submitted in the specified format in accordance with the required schedule.

(3) Data detailing by specified category the amount of Program benefits issued or returned through the EBT system shall be provided in a format and mechanism specified by FNS to the FNS Account Management Agent as the benefits become available to recipients. This data will be used to increase or decrease the SNAP EBT benefit funding authorization for the State's Automated Standard Application for Payment (ASAP) account.

(c) *Required reports.* The State agency shall review and submit the following reports to FNS on a monthly basis:

(1) Form FNS-46, Issuance Reconciliation Report, shall be submitted by each State agency operating an issuance system. The report shall be prepared at the level of the State agency where the actual reconciliation of posted benefits and the master issuance file occurs.

(i) The State agency shall identify and report the number and value of all

issuances which do not reconcile with the master issuance file. All unreconciled issuances shall be identified as specified on this reporting document.

(ii) The report shall be received by FNS no later than 90 days following the end of the report month.

(2) *Form FNS-388, State Issuance and Participation Estimates.* (i) State agencies shall telephone or transmit by computer the Form FNS-388 data and mail the reports to the FNS regional office no later than the 19th day of each month. When the 19th falls on a weekend or holiday, the Form FNS-388 data shall be reported by telephone or transmitted by computer and mailed on the first work day after the 19th. The Form FNS-388 report shall be signed by the person responsible for completing the report or a designated State agency official.

(ii) The Form FNS-388 report shall provide Statewide estimated or actual totals of issuance and participation for the current and previous month, and actual or final participation totals for the second preceding month. In addition to the participation totals for the second preceding months of January and July, provided on the March and September reports, non-assistance (NA) and public assistance (PA) household and person participation breakdowns shall be provided. As an attachment to the March and September Form FNS-388 reports, State agencies shall provide project area breakdowns of benefit issuance and NA/PA household and person participation data for the second preceding months of January and July.

(iii) State agencies shall submit any proposed changes in their estimation procedures to be used in determining the Form FNS-388 data to the FNS regional office for review and comment. FNS shall monitor the accuracy of the Statewide estimated dollar value of benefits issued and the number of households and persons participating as reported on the Form FNS-388 report against the Statewide actual total participation as reported on succeeding Form FNS-388 reports and against the semiannual project area participation totals attached to the March and September Form FNS-388 reports. The FNS accuracy standards for the issuance and participation estimates are that estimates for the current month be within (+) or (–) four (4) percent of actual levels, and the estimates for the previous month be within (+) or (–) two (2) percent of actual levels. State agencies shall explain any unusual circumstances that cause benefit issuance and/or participation data to not meet these accuracy standards. If a State

agency fails to meet these accuracy standards, FNS shall notify the State agency and assist the State agency in revising its estimating procedures to improve its reporting.

(iv) A participating household is one that is certified and has been, or will be, issued benefits (whether or not the benefits are used), and households that have met the eligibility requirements, but will receive zero benefits.

#### **§ 274.5 Record retention and forms security.**

(a) *Availability of records.* (1) 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.

(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.

(c) *Accountable documents.* (1) EBT cards shall be considered accountable documents. The State agency shall provide the following minimum security and control procedures for these documents:

- (i) Secure storage;
- (ii) Access limited to authorized personnel;
- (iii) Bulk inventory control records;
- (iv) Subsequent control records maintained through the point of issuance or use; and
- (v) 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, the State agency shall, at a minimum, provide secure storage and shall limit access to authorized personnel.

#### **§ 274.6 Replacement issuances and cards to households.**

(a) *Providing replacement issuance.* (1) Subject to the restrictions in paragraph (a)(3) of this section, State agencies shall provide replacement issuances to a household when the household reports that food purchased

with Program benefits was destroyed in a household misfortune.

(2) Where a Federal disaster declaration has been issued and the household is eligible for disaster SNAP benefits under the provisions of part 280, the household shall not receive both the disaster allotment and a replacement allotment for a misfortune.

(3) *Replacement restrictions.* (i) Replacement issuances shall be provided only if a household timely reports a loss orally or in writing. The report will be considered timely if it is made to the State agency within 10 days of the date food purchased with Program benefits is destroyed in a household misfortune.

(ii) No limit on the number of replacements shall be placed on the replacement of food purchased with Program benefits which was destroyed in a household misfortune.

(iii) Except for households certified under 7 CFR part 280, replacement issuances shall be provided in the amount of the loss to the household, up to a maximum of one month's allotment, unless the issuance includes restored benefits which shall be replaced up to their full value.

(4) *Household statement of loss.* (i) Prior to issuing a replacement, the State agency shall obtain from a member of the household a signed statement attesting to the household's loss. The required statement may be mailed to the State agency if the household member is unable to come into the office because of age, handicap or distance from the office and is unable to appoint an authorized representative.

(ii) If the signed statement or affidavit is not received by the State agency within 10 days of the date of report, no replacement shall be made. If the 10th day falls on a weekend or holiday, and the statement is received the day after the weekend or holiday, the State agency shall consider the statement timely received.

(iii) The statement shall be retained in the case record. It shall attest to the destruction of food purchased with the original issuance and the reason for the replacement. It shall also state that the household is aware of the penalties for intentional misrepresentation of the facts, including but not limited to, a charge of perjury for a false claim.

(5) *Time limits for making issuance replacements.* (i) Replacement issuances shall be provided to households within 10 days after report of loss or within two (2) working days of receiving the signed household statement required in paragraph (a)(4) of this section, whichever date is later.

(ii) The State agency shall deny or delay replacement issuances in cases in which available documentation indicates that the household's request for replacement appears to be fraudulent.

(iii) The household shall be informed of its right to a fair hearing to contest the denial or delay of a replacement issuance. Replacements shall not be made while the denial or delay is being appealed.

(6) *Verifying issuance and household misfortune.* (i) Upon receiving a request for replacement of an issuance for food destroyed in a household misfortune, the State agency shall determine if the issuance was validly issued. The State agency shall also comply with all applicable provisions in paragraphs (a)(3) through (a)(5) of this section.

(ii) Prior to replacing destroyed food that was purchased with Program benefits, the State agency shall determine that the destruction occurred in a household misfortune or disaster, such as, but not limited to, a fire or flood. This shall be verified through a collateral contact, documentation from a community agency including, but not limited to, the fire department or the Red Cross, or a home visit.

(7) *Documentation and reconciliation of replacement issuances.* (i) The State agency shall document in the household's case file each request for replacement, the date, the reason, and whether or not the replacement was provided. This information may be recorded exclusively on the household statement required in paragraph (a)(4) of this section.

(ii) The State agency shall maintain, in readily-identifiable form, a record of the replacements granted to the household, the reason, and the month. The record may be a case action sheet maintained in the case file, notations on the master issuance file, if readily accessible, or a document maintained solely for this purpose.

(iii) When a request for replacement is made late in an issuance month, the replacement will be issued in a month subsequent to the month in which the original benefit was issued. All replacements shall be posted and reconciled to the month of issuance of the replacement and may be posted to the month of issuance of the original benefit, so that all duplicate transactions may be identified.

(b) *Providing replacement EBT cards or PINs.* In general, the State agency shall replace EBT cards within 2 business days following notice by the household to the State agency that the card has been lost or stolen. In cases where the State agency is using

centralized card issuance, replacement can be extended to take place within up to five calendar days. In all instances, the State agency must ensure that clients have in hand an active card and PIN with benefits available on the card, within the time frame the State agency has identified for card replacement.

(1) 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.

(2) 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.

(3) 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.

#### **§ 274.7 Benefit redemption by eligible households.**

(a) *Eligible food.* Program benefits may be used only by the household, or other persons the household selects, to purchase eligible food for the household, which includes, for certain households, the purchase of prepared meals, and for other households residing in certain designated areas of Alaska, the purchase of hunting and fishing equipment with benefits.

#### *(b) Prior payment prohibition.*

Program benefits shall not be used to pay for any eligible food purchased prior to the time at which an EBT card is presented to authorized retailers or meal services. Neither shall benefits be used to pay for any eligible food in advance of the receipt of food, except when prior payment is for food purchased from a nonprofit cooperative food purchasing venture.

(c) *Transaction limits.* No minimum dollar amount per transaction or maximum limit on the number of transactions shall be established. In addition, no transaction fees shall be imposed on SNAP households utilizing the EBT system to access their benefits.

(d) *Access to balances.* (1) Households shall be permitted to determine their SNAP account balances without making a purchase or standing in a checkout line.

(2) The State agency shall ensure that the EBT system is capable of providing a transaction history for a period of up to 2 calendar months to households upon request.

(3) Households shall be provided printed receipts at the time of transaction in accordance with § 274.8(b)(7).

(e) *Access to retail stores.* (1) The EBT system shall provide for minimal disruption of access to and service in retail stores by eligible households.

(2) The EBT system shall not result in a significant increase in the cost of food or cost of transportation to authorized retailers for SNAP households.

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

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

(2) Checkout lanes equipped with POS devices shall be made available to SNAP households during all retail store hours of operation.

(g) *Households eligible for prepared meals.* (1) *Meals-on-wheels.* Eligible household members 60 years of age or over or members who are housebound, physically handicapped, or otherwise disabled to the extent that they are unable to adequately prepare all their

meals, and their spouses, may use Program benefits to purchase meals prepared for and delivered to them by a nonprofit meal delivery service authorized by FNS.

#### *(2) Communal dining facilities.*

Eligible household members 60 years of age or over and their spouses, or those receiving SSI and their spouses, may use Program benefits issued to them to purchase meals prepared especially for them at communal dining facilities authorized by FNS for that purpose.

(3) *Residents of certain institutions.* (i) Members of eligible households who are narcotics addicts or alcoholics and who regularly participate in a drug or alcoholic treatment rehabilitation program may use Program benefits to purchase food prepared for them during the course of such program by a private nonprofit organization or institution or publicly operated community mental health center which is authorized by FNS to redeem benefits in accordance with § 278.1 and § 278.2(g) of this chapter.

(ii) Eligible residents of a group living arrangement may use Program benefits issued to them to purchase meals prepared especially for them at a group living arrangement which is authorized by FNS to redeem benefits in accordance with § 278.1 and § 278.2(g) of this chapter.

(iii) Residents of shelters for battered women and children as defined in § 278.1(g) of this chapter may use their Program benefits to purchase meals prepared especially for them at a shelter which is authorized by FNS to redeem benefits in accordance with § 278.1 and § 278.2(g) of this chapter.

(4) *Homeless households.* (i) Homeless SNAP households may use their Program benefits to purchase prepared meals from authorized homeless meal providers.

(ii) Eligible homeless households may use Program benefits to purchase meals from restaurants authorized by FNS for such purpose.

(h) Eligible households residing in areas of Alaska determined by FNS as areas where access to authorized retailers is difficult and which rely substantially on hunting and fishing for subsistence may use all or any part of the Program benefits issued to purchase hunting and fishing equipment such as nets, hooks, rods, harpoons and knives, but may not use benefits to purchase firearms, ammunition, and other explosives.

(i) State agencies shall implement a method to ensure that access to prepared meals and hunting and fishing equipment is limited to eligible

households as described in paragraphs (g) through (h) of this section.

**§ 274.8 Functional and technical EBT system requirements.**

(a) *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) 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) Totaling 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 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 in accordance with § 274.3(e).

(b) *Performance and technical standards.* The State agency shall ensure that EBT systems comply with 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, 7 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 SNAP 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 POS 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 authentication 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) Reversal 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;

(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 POS terminals to EBT central computer database and system file updates.

(vi) The State agency shall incorporate the contingency plan approved by FNS 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) *Minimum card requirements.* (i) The address of the office where a card



can be returned if found or no longer in use should be printed on the card.

(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.

(6) *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.

(7) *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 SNAP 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 SNAP households member's account number (the PAN) using a truncated number or coded transaction number. The households' name shall not appear on the receipt except when a signature is required when utilizing a manual transaction voucher.

(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 benefits issued in the form of an EBT card to be redeemed in any State. The term "portability" means the EBT system must enable benefits 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 and Nutrition Act of 2008. The standards must include the following:

(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) and § 273.15(k) of this chapter and paragraph (f) of this section. State agencies or their designated agents must draw funds from State SNAP accounts for SNAP benefits transacted by that State's SNAP recipients, regardless of where benefits were transacted.

(ii) *Message format.* Each authorization system must use the 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 PAN. The PAN

must comply with 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 7 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 also 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.

(c) *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 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 through the ASAP system 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 SNAP redemptions provided the entity is acceptable to FNS and U.S. Treasury;

(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.

(d) *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 percent 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 percent maximum, however, this lesser amount must be applied to all households.

(B) \$50 in the first month and the greater of \$10 or 10 percent 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 represented transaction or arrange for a faster schedule of payment than identified in paragraph (d)(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.

(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.

(e) *Store-and-forward*. As an alternative to manual transactions:

(1) State agencies may opt to allow retailers, at the retailer's own choice and liability, to perform store-and-forward transactions when the EBT system cannot be accessed for any reason. The retailer may forward the transaction to the host one time within 24 hours of when the system again becomes available. Should the 24-hour window cross into the beginning of a new benefit issuance period, retailers may draw against all available benefits in the account.

(2) State agencies may also opt, in instances where there are insufficient funds to authorize an otherwise approvable store-and-forward transaction, to allow the retailer to collect the balance remaining in the client's account, in accordance with the requirements detailed in this section.

(i) State Agencies may elect to allow store-and-forward to provide remaining balances to retailers as follows:

(A) The EBT processor may provide partial approval of the store-and-forward transaction, crediting the retailer with the balance remaining in the account through a one-step process;

(B) The transaction should be in accordance with the standard message format requirements for store and forward; and

(C) Re-presentation, as described in paragraph (d) of this section, to obtain the uncollected balance from current or future months' benefits shall not be allowed for store-and-forward transactions.

(ii) In States that elect not to give retailers the option described in this paragraph, all store-and-forward transactions with insufficient funds will be denied in full.

Dated: April 2, 2010.

**Julia Paradis,**

*Administrator, Food and Nutrition Service.*

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