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in FY 1998, as estimated by FNS, based on FY 1996 quality control data, and other factors FNS deems appropriate.

(2) *Subsequent fiscal years.* For FY 1999 and each subsequent fiscal year, a State agency may provide a number of exemptions such that the average monthly number of exemptions in effect during the fiscal year does not exceed 15 percent of the number of covered individuals in the State, as estimated by FNS, and adjusted by FNS to reflect changes in:

(i) The State's caseload, and

(ii) FNS' estimate of changes in the proportion of food stamp recipients covered by waivers granted under paragraph 6(o)(4) of the Food Stamp Act.

(c) *Adjustments* will be made as follows:

(1) *Caseload adjustments.* FNS shall adjust the number of covered individuals estimated for a State under paragraphs (c) and (d) of this section during a fiscal year if the number of food stamp recipients in the State varies from the State's caseload by more than 10 percent, as estimated by FNS.

(2) *Exemption adjustments.* During FY 1999 and each subsequent fiscal year, FNS shall adjust the number of exemptions allocated to a State agency based on the number of exemptions in effect in the State for the preceding fiscal year.

(i) If the State agency does not use all of its exemptions by the end of the fiscal year, FNS shall increase the estimated number of exemptions allocated to the State agency for the subsequent fiscal year by the remaining balance.

(ii) If the State agency exceeds its exemptions by the end of the fiscal year, FNS shall reduce the estimated number of exemptions allocated to the State agency for the subsequent fiscal year by the corresponding number.

(d) *Reporting requirement.* The State agency shall track the number of exemptions used each month and report this number to the regional office on a quarterly basis as an addendum to the quarterly employment and training report (Form FNS-583) required by § 273.7(c)(6).

(e) *Other Program rules.* Nothing in this section shall make an individual eligible for benefits under the Food Stamp Act if the individual is not oth-

erwise eligible for benefits under the other provisions of the Food Stamp Act.

[Amdt. 379, 64 FR 48257]

PART 274—ISSUANCE AND USE OF COUPONS

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§ 274.1 State agency issuance responsibility.

(a) *Basic issuance requirements.* State agencies shall establish issuance and accountability systems which ensure that only certified eligible households receive benefits; that coupons are accepted, stored, and protected after delivery to receiving points within the State; that Program benefits are timely distributed in the correct amounts; and that coupon issuance and reconciliation activities are properly conducted and accurately reported to FNS.

(b) *Contracting or delegating issuance responsibilities.* State agencies may assign to others such as banks, savings and loan associations, the Postal Service, community action and migrant service agencies, and other commercial businesses, the responsibility for the issuance and storage of food coupons. State agencies may permit contractors to subcontract assigned issuance responsibilities.

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(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 coupons, 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.

(3) The State agency shall not assign the issuance of coupons to any retail food firm unless the State agency provides evidence that such an arrangement is needed to maintain or increase the efficient and effective operation of the Program, as described below.

(i) Coupons may be issued inside or within a retail food store, if the issuance is performed by a bank, credit union or other financial organization independent of the retail food store.

(ii) Coupons may be issued on-site by a retail food store under the following conditions:

(A) The State agency adequately documents that unless the retail food store is permitted to issue coupons on-site there will be a hardship, not just an inconvenience, to recipients. The State agency shall contract directly with the retail food firm and shall provide oversight to such entity; or

(B) In the absence of the hardship documentation, a retail food firm itself may perform issuance as a subcontractor to a bank, credit union or other independent financial organization, with strict oversight by the financial organization.

(4) The State agency may contract with the U.S. Postal Service for the issuance of benefits. The Department and the Postal Service have signed an agreement which governs benefit issuance by the Postal Service. A State agency's contract with the Postal Service does not exempt the State agency from the requirement that it comply with these regulations. However, State agencies may negotiate contracts with the Postal Service on all terms and conditions as long as

such provisions do not conflict with these regulations.

(5) In project areas or parts of project areas where FNS has required a Photographic identification (Photo ID) system to be used, the State agency shall include in any contract or agreement with an issuing agent a provision establishing the agent's liability to the State agency for the face value of coupons issued in any authorization document transaction where the authorization document is found to have been stolen or otherwise not received by the household certified as eligible, if the cashier has not fulfilled the requirements contained in §274.10. This same provision shall apply to issuance contracts in project areas or parts of project areas where FNS has granted a waiver or waivers of any provision(s) of the Photo ID requirements based on a determination that State agency alternatives will not compromise the security of the ID system.

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

(1) The State agency shall conduct an onsite review of each coupon issuer and bulk storage point at least once every three years. All offices or units of a coupon issuer are subject to this review requirement. The State agency shall base each review on the specific activities performed by each coupon issuer or bulk storage point. A physical inventory of coupons shall be taken at each location and that count compared with perpetual inventory records and the monthly reports of the coupon issuer or bulk storage point. This review may be conducted at branch sites as well as the main offices of each issuer and bulk storage point that operates in more than one office. Except in unusual circumstances, the Postal Inspection Service will conduct onsite reviews of Postal Service issuance operations.

(2) This review requirement may be fulfilled in part or in total by the performance reporting review system, part 275. The State agency may delegate

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this review responsibility to another unit of the State government or contract with an outside firm with expertise in auditing and accounting. State agencies may use the results of reviews of coupon issuers by independent audit or accounting firms as long as the food coupon issuance operations of the coupon issuer are included in the review.

(d) *Changes.* The State agency shall inform FNS whenever a project area, issuance point, reconciliation point, replacement point, bulk storage reporting point or coupon shipment receiving point is created, relocated, or terminated. The State agency shall report the change at least 30 days prior to the effective date of the change. Initial notification may be made by telephone but the State agency shall confirm the information in writing as soon as possible.

(e) *Advance planning documentation.* State agencies must comply with the procurement requirements of part 277 for the acquisition, design, development, or installation of automated data processing (ADP) equipment. With certain exceptions detailed in part 277, State agencies must receive prior approval for the design and acquisition of ADP systems through submission of advance planning documents (APD's).

§ 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 in accordance with these regulations. Those households comprised of elderly or disabled members which 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 their regular monthly benefits. State agencies shall assist these households by arranging for the mail issuance of coupons to them, by assisting them in finding authorized representatives who can act on their behalf, or by using other appropriate means. Requirements to assure timely and accurate issuance of benefits to eligible households in rural areas are described in paragraph (g) of this section.

(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 coupons or authorization documents and having issuance facilities open and available for the households to obtain their benefits. State agencies must mail authorization documents or coupons in time to assure that the documents can be transacted, or the coupons 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 authorization document or benefits are mailed on the 29th or 30th day. Neither has an opportunity to participate been provided if the authorization document is mailed on the 28th day but no issuance facility is open on the 30th day. For households entitled to expedited service, the State agency shall make benefits available to the household not later than the fifth calendar day following the date of application. Whatever system a State agency uses to ensure meeting this delivery standard shall be designed to allow a reasonable opportunity for redemption of ATPs no later than the fifth calendar day following the date of application.

(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, with the same validity period, made available at the same time, in accordance with the timeframes specified in § 273.2 of this chapter.

(d) *Ongoing households.* 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.

(l) State agencies that use direct-mail issuance shall stagger issuance over at least 10 days of the issuance month, and may stagger issuance over

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the entire issuance month. State agencies using a method other than direct-mail issuance 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, households on a fluctuating schedule within a staggered system, and households being moved from a direct-mail issuance system to an authorization document 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, 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) *Issuance services.* State agencies are responsible for determining the location and hours of operation of issuance services. In doing so, State agencies shall ensure that the issuance schedules set forth in paragraphs (b) and (c) of this section are met. In addition, issuance authorization documents, such as ATP cards, should be valid only in the geographic area within the State that is encompassed by the reconciliation system through which the issuance will be processed; however, the validity area may be extended within the State at the State agency's option. State agencies may also restrict the validity of these documents to smaller areas or particular issuance sites with minimal practicable inconvenience to affected households.

(f) *Issuance of coupons to households.* The State agency shall issue coupon books in accordance with a table for coupon-book issuance provided by FNS, except as provided in paragraphs (e)(1), (e)(2), and (e)(3) of this section. The State agency shall issue the coupon books in consecutive serial number order whenever possible, starting with the lowest serial number in each coupon book denomination. The household member whose name appears on the ID card shall sign the coupon books; if more than one name appears, any named member may sign the books.

(1) The State agency may deviate from the table if the specified coupon books are unavailable.

(2) Exceptions from the table are authorized for blind and visually-handicapped participants who request that all coupons be of one denomination. Recipients who have no fixed address (homeless), and residents of shelters for battered women and children, as defined in § 271.2, and which are not authorized by FNS to redeem through wholesalers, may request that all or

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part of their coupons be of the \$1 denomination. State agencies are authorized to grant this request when feasible.

(3) If a household is eligible for an allotment of \$1, \$3, or \$5, the State agency shall adjust those allotments to \$2, \$4, or \$6, respectively.

(g) *Issuance in rural areas.* State agencies shall use direct-mail issuance in any rural areas where the State agency determines that recipients face substantial difficulties in obtaining transportation in order to obtain their food stamp benefits by methods other than direct-mail issuance. Exceptions shall be made for households which have exceeded the two allowable reported losses within a six-month period and replacements set forth in § 274.6 (b) and (g), and direct-mail issuance is not required in those localities where the direct mail loss rates exceed, or are likely to exceed, standards set by the Secretary at § 276.2(b) of this chapter. The State agency shall:

(1) Submit an attachment to the State Plan of Operation (§ 272.2(d)(1)(xi) of this chapter) which describes the State's exemption from this requirement, because the State agency uses direct-mail issuance throughout the State, or

(2) Submit an attachment to the State Plan of Operation (§ 272.2(d)(1)(xi) of this chapter) which describes:

(i) The areas designated by the State agency as rural;

(ii) The rural areas where direct-mail issuance will not be used because:

(A) Recipients do not face substantial difficulties in obtaining transportation to obtain their benefits, and/or;

(B) Direct-mail issuance losses exceed the loss tolerance levels, or there is evidence which indicates that direct-mail issuance, if used, would produce losses which would exceed the loss tolerance levels established under § 276.2(b)(4) of this chapter.

(iii) The State agency's criteria for designating an area as rural. Such criteria may include, but are not limited to: the use of the Bureau of the Census definition; the distances that recipients may need to travel to reach an issuance office; or, other criteria described by the State agency.

(iv) The State agency's minimum criteria for determining that recipients in an area designated as rural do not face substantial difficulties in obtaining transportation to obtain their benefits.

(v) The State agency's schedule for introducing direct-mail issuance into any rural areas requiring direct-mail issuance because of substantial transportation problems.

[54 FR 7004, Feb. 15, 1989, as amended at 54 FR 51351, Dec. 15, 1989; 60 FR 20182, Apr. 25, 1995]

§ 274.3 Issuance systems.

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

(1) An authorization document system that uses a document produced for each month's issuance. The intermediary document, such as an ATP, may be distributed on a monthly basis to each household and surrendered by the household to the coupon issuer, or provided monthly to issuers with either single household authorizations or multiple household authorizations on each (such as a computer-generated listing). For reconciliation and identification purposes, the authorization document shall contain the following:

(i) Serial number;

(ii) Case name and address;

(iii) Case number;

(iv) Allotment amount;

(v) Benefit month or expiration date;

(vi) Name of issuing project area;

and,

(vii) Space for signature of household member. An additional space for an authorized representative may be included.

(2) A direct access system that directly accesses a master issuance file at the time that benefits are issued to households. This system shall use manual card access or an automated access to the master issuance file. Systems of this type include the manual Household Issuance Record (HIR) card system and on-line issuance terminals.

(3) A mail issuance system that directly delivers coupons through the mail to households.

(4) An on-line Electronic Benefit Transfer system in which food stamp benefits are stored in a central computer database and electronically

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accessed by households at the point-of-sale via reusable plastic cards.

(b) *Other systems.* A State agency may develop an issuance system which cannot be readily categorized into one of the systems described in paragraph (a) of this section. FNS shall prescribe the reporting and reconciliation requirements which apply to that system.

(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 coupons using another method. The alternative method may be one of the methods described in paragraph (a) of this section, or the Secretary may require a State agency to issue, in lieu of coupons, reusable documents to be used as part of an automated data processing and information retrieval system and to be presented by, and returned to, recipients at retail food firms for the purpose of purchasing food. 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.

(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) *System requirements.* (1) The State agency shall establish a master issuance file which is a composite of the issuance records of all certified food stamp 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 informa-

tion 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 an authorization document is issued under the expedited service requirements of §§ 273.2(i) and 274.2(b), the State agency shall complete as much of the master issuance file review as possible prior to issuing the authorization document. 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, assembly of benefits and preparation of envelopes for mailing. If issuance functions in an office are handled by one person, a second-party review shall be made to verify coupon 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 more than one issuance system.

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

(5) State agencies shall establish a Statewide record of replacement issuances granted to households to prevent a household from receiving more than two countable replacement issuances as defined in § 274.6(b) in a six-month period.

(6) State agencies which issue benefits by mail shall, at a minimum, use first class mail and sturdy nonforwarding envelopes or packages to send benefits to households.

(e) *Validity periods.* (1) State agencies shall establish validity periods for issuances made in both authorization document and direct access systems. A validity period is the time frame during which a household may obtain benefits by transacting an authorization document, or receiving the benefits directly at an issuance point. Generally, the validity period coincides with the issuance month or the period of intended use, which may or may not be a calendar month. However, in instances in which authorization documents are distributed, or benefits become available for ongoing households late in the issuance month, the State agency shall extend the validity or availability period for either twenty (20) additional days, or until the end of the following issuance month, at the State agency's option. The State agency may also choose one of two dates which will initiate this extension of the validity or availability period. The State agency may choose to extend the period for authorization documents distributed or for benefits made available, on or after the 20th day of the issuance month or after the 15th day of the issuance month. Whichever date the State agency chooses to initiate the required extension, the State agency must use the date consistently for all extensions in this category. A household which does not transact its authorization document, or obtain the benefits directly from an issuance point during the issuance's validity period, shall lose its entitlement to the benefits, and the State agency shall not issue benefits to such a household for such a period.

(2) State agencies experiencing excessive issuance losses may develop systems that have authorization documents that expire in shorter time frames than those set forth in paragraph (e) of this section. However, such systems shall include methods that allow households the opportunity to obtain their benefits for the full validity period of a month's issuance.

[54 FR 7004, Feb. 15, 1989, as amended at 54 FR 51351, Dec. 15, 1989; 57 FR 11249, Apr. 1, 1992; 60 FR 20183, Apr. 25, 1995]

§ 274.4 Reconciliation and reporting.

(a) *Reconciliation.* State agencies shall account for all issuance through a

reconciliation process. The manner in which this is done varies depending on the type of issuance system being used.

(1) Described below are the required reconciliation procedures for each type of system.

(i) In all issuance systems coupon issuers shall reconcile their issuances daily using daily tally sheets, cashiers' daily reports, tapes or printouts.

(ii) In systems where a record-for-issuance is used, all issuances authorized for the month shall be merged into one record-for-issuance at the end of each month. All issuances made during the month shall then be posted to the record-for-issuance. The record-for-issuance shall then be compared with the master issuance file. Findings from this comparison shall be reported on the Form *FNS-46* as prescribed in paragraph (b)(2) of this section.

(iii) In systems where no record-for-issuance is used, issuances made during each month shall be reconciled to the master issuance file. Findings from this reconciliation shall be reported on the Form *FNS-46* as prescribed in paragraph (b)(2) of this section.

(iv) In addition to the reconciliation activity prescribed in the paragraphs (a)(1)(i), (a)(1)(ii) and (a)(1)(iii) of this section, the following steps shall be followed in authorization document systems:

(A) The State agency shall determine and verify the transacted value of authorized coupon issuances.

(B) Any batches of transacted authorization documents that do not reconcile shall be maintained intact by the State agency until the discrepancy is resolved with the coupon issuer and/or a review of the case files.

(C) The State agency shall compare all transacted authorization documents with the record-for-issuance or master issuance file as appropriate. Any documents that do not match with the record-for-issuance or master issuance file shall be identified and reported as required in paragraph (b)(2) of this section.

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

(1) Form *FNS-250*, Food Coupon Accountability Report.

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(i) This report, executed monthly by coupon issuers and bulk storage points, shall be signed by the coupon issuer or appropriate official, certifying that the information is true and correct to the best of that person's knowledge and belief.

(ii) Coupon issuers and bulk storage points shall submit supporting documentation to the State agency which will allow verification of the monthly report. At a minimum, such documentation shall include documents supporting coupon shipments, transfers, issuances, and destruction.

(iii) For those State agencies which use an authorization document issuance system, coupon issuers shall submit transacted authorization documents batched according to each day's activity in accordance with a schedule prescribed by the State agency, but not less often than monthly.

(iv) All mail issuance activity, including the value of mail issuance replacements, shall be reported. Original allotments (first benefits issued for a particular month to an ongoing household) subsequently recovered by the issuance office during the current month shall be returned to inventory and noted on the mail issuance log. When the original allotment is returned to inventory and the replacement issuance is issued during the current month (month in which original benefits were issued), the "replacement" shall not be reported.

(v) The Form *FNS-250* shall be reviewed by the State agency for accuracy, completeness and reasonableness. The State agency shall attest to the accuracy of these reports and shall submit the reports so they will be received by FNS by the 45th day after the report month. Any revisions to the Form *FNS-250* for a given month shall be submitted to FNS within 105 days after the end of the report month.

(vi) FNS shall review each form, submitted through the State agency, for completeness, accuracy and reasonableness and shall reconcile inventory with shipping records, and shall review State agency verification of coupon issuer and bulk storage point monthly reports. FNS may supplement the above reviews by unannounced spot checks of inventory levels and coupon

security arrangements at coupon issuers and at bulk storage points.

(2) 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 the record-for-issuance and 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 record-for-issuance and/or 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.

(3) Form *FNS-259*, Food Stamp Mail Issuance Report.

(i) Form *FNS-259* reports shall be submitted by State agencies for each unit using a mail issuance system as specified in the Mail Issuance Loss Reporting Plan required in §272.2(d)(1)(iv). The State agency shall submit the Form *FNS-259* reports so that they are received in FNS by the 45th day following the end of each quarter.

(ii) The State agency shall verify the issuance by a comparison with issuance on the appropriate coupon issuer's Form *FNS-250*.

(4) Form *FNS-388*, State Coupon 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 the coupon 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 estimated dollar value of coupons issued as reported on the Form *FNS-388* against the Statewide total dollar value of coupons as reported by the issuance agents on the Form *FNS-250*, Food Stamp Accountability Report, for the corresponding month. FNS shall monitor the accuracy of the Statewide estimated 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 coupon 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.

[54 FR 7004, Feb. 15, 1989, as amended at 54 FR 51351, Dec. 15, 1989]

§ 274.5 Authorized representatives.

(a) *Household representation.* The head of household, spouse or any other responsible member of the household may designate an authorized representative to act on behalf of the household in making application for the Program, in obtaining benefits and/or in using benefits at authorized firms. Rules pertaining to designating authorized representatives to apply for the Program on behalf of a household are in §273.1(f). Specified below are the rules pertaining to the use of authorized representatives to obtain household benefits or to use household benefits:

(1) An authorized representative may be designated to obtain coupons. The designation shall be made at the time the application is completed and any authorized representative shall be named on the ID card. The authorized representative for coupon issuance may be the same individual designated to make application for the household or may be another individual. Even if a household member is able to make application and obtain benefits, the household should be encouraged to name an authorized representative for obtaining coupons in case of illness or other circumstances which might result in an inability to obtain benefits.

(2) The State agency shall ensure that authorized representatives are properly designated. The name of the authorized representative shall be contained in the household's case file. Limits shall not be placed on the number of households an authorized representative may represent. In the event employers, such as those that employ migrant or seasonal farmworkers, are designated as authorized representatives or that a single authorized representative has access to a large number of authorization documents or coupons, the State agency should exercise caution to assure that each household has freely requested the assistance of the authorized representative, the household's circumstances are correctly represented, the household is receiving the correct amount of benefits and that the authorized representative is properly using the benefits.

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(3) State agency employees who are involved in the eligibility determination and/or issuance processes and employees of authorized food firms and meal services that are authorized to accept food coupons shall not be authorized representatives unless the State agency determines that no other representative is available.

(4) An individual disqualified for fraud shall not be an authorized representative during the period of disqualification unless the individual is the only adult in the household and the State agency is unable to arrange for another authorized representative. State agencies shall separately determine whether these individuals are needed to apply on behalf of the household, to obtain coupons for the household, and to use the household's coupons to purchase food.

(5) In the event the only adult living with a household is classified as a non-household member as defined in § 273.1(b), that individual may be the authorized representative for the minor household members.

(6) Drug or alcohol treatment centers shall receive and spend the food stamp benefits for food prepared by and/or served to the residents of the center who are participating in the Food Stamp Program.

(7) The head of a group living arrangement which acts as the authorized representative for the residents, may either receive and spend the residents' benefits for food prepared by and/or served to each eligible resident or allow each resident to spend all or any portion of the benefits on his/her own behalf. Meal providers for the homeless may not be authorized representatives, as specified in § 273.1(f)(4)(iv).

(b) *Emergency representative for obtaining benefits.* The State agency shall develop a system by which a household may designate an emergency authorized representative to obtain the household's benefits for a particular month. At a minimum, the method developed by the State agency shall require that a household member whose signature is on the household's ID card sign a designation authorizing the particular emergency representative to re-

ceive the household's benefits and attesting to the validity of the emergency representative's signature which must also be on the designation. Households shall not be required to travel to a food stamp office to execute the designation. Additional provisions pertaining to the use of identification cards by emergency authorized representatives are contained in § 274.10(c).

(c) *Authorized representatives for using benefits.* A household may enlist any household member or a nonmember to use its ID card and benefits to purchase food or meals for the household. However, individuals disqualified from the Program because of their commission of an intentional Program violation may only act as authorized representatives for households if no other representative can be found.

(d) *Disqualification.* An authorized or emergency representative may be disqualified from representing a household in the Program for up to one year if the State agency has obtained evidence that the representative has misrepresented a household's circumstances and has knowingly provided false information pertaining to the household, or has made improper use of coupons. The State agency shall send written notification to the affected household and to the representative 30 days prior to the date of disqualification. The notification shall include the proposed action, the reason for the proposed action, the household's right to request a fair hearing, the telephone number of the office, and, if possible, the name of the person to contact for additional information. This provision is not applicable in the case of drug and alcohol treatment centers and to the heads of group living arrangements which act as authorized representatives for their residents. However, drug and alcohol treatment centers and the heads of group living arrangements that act as authorized representatives for their residents, and which intentionally misrepresent households' circumstances, may be prosecuted under applicable State fraud statutes for their acts.

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§ 274.6 Replacement issuances to households.

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

(i) Its authorization document was not received in the mail or was stolen from the mail, was stolen after receipt, was destroyed in a household misfortune, or was improperly manufactured or mutilated;

(ii) Its coupons were not received in the mail, were stolen from the mail, were destroyed in a household misfortune, or were improperly manufactured or mutilated;

(iii) Food purchased with food stamps was destroyed in a household misfortune; or

(iv) It received a partial coupon allotment.

(2) State agencies shall not provide replacement issuances to households when coupons are lost, stolen or misplaced after receipt, authorization documents are lost or misplaced after receipt, when authorization documents or coupons are totally destroyed after receipt in other than a disaster or misfortune, or when coupons sent by registered or certified mail are signed for by anyone residing with or visiting the household. In addition, replacement issuances shall not be made if the household or its authorized representative has not signed and returned the household statement required in paragraph (c) of this section, where applicable.

(3) Where FNS has issued a disaster declaration and the household is eligible for disaster food stamp benefits under the provisions of part 280, the household shall not receive both the disaster allotment and a replacement allotment for a misfortune.

(4) In order for a replacement to be considered non-countable, the replacement must not result in a loss to the Program.

(b) *Replacement restrictions.* (1) Replacement issuances shall be provided only if a household timely reports a loss orally or in writing, and provides a statement of nonreceipt if the original authorization document or allotment

has not been returned to the State agency at the time of the request for replacement. The report will be considered timely if it is made to the State agency within 10 days of the date an authorization document is stolen from the household, or an authorization document, coupons, or food purchased with food stamps is destroyed in a household misfortune. In mail issuance (ATPs or coupons), the report must be made within the period of intended use, unless the original issuance was made after the 20th of the month, in which case the period of intended use is 20 days from original issuance, or the last day of the next month (State agency option).

(2) The number of replacement issuances which a household may receive shall be limited as follows:

(i) State agencies shall limit replacement issuances to a total of two countable replacements in six months for authorization documents or coupons not received in, or stolen from, the mail; authorization documents stolen after receipt; and partial coupon allotments. However, no limit shall be put on the number of replacements of partial allotments if the partial allotments were due to State agency error. Separate limits shall not apply for each of these types of loss.

(ii) State agencies shall limit replacement issuances per household to two countable replacements in six months for authorization documents or coupons reported as destroyed in a household misfortune. This limit is in addition to the limit in paragraph (b)(2)(i) of this section.

(iii) No limit on the number of replacements shall be placed on the replacement of authorization documents or coupons which were improperly manufactured or mutilated or food purchased with food stamp benefits which was destroyed in a household misfortune.

(iv) The replacement issuance shall not be considered a countable replacement if:

(A) The original or replacement issuance is returned or otherwise recouped by the State agency;

(B) The original authorization document is not transacted;

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(C) The replacement authorization document is not transacted; or

(D) The replacement is being issued due to a State agency issuance error.

(3) 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.

(c) *Household statement of nonreceipt.*

(1) 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. This statement shall not be required if the reason for the replacement is that the original authorization document or coupons were improperly manufactured or mutilated, or if the original issuance has already been returned. 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.

(2) 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.

(3) The statement shall be retained in the case record. It shall attest to the nonreceipt, theft, loss or destruction of the original issuance and specify the reason for the replacement. It shall also state that the original or replacement issuance will be returned to the State agency if the original issuance is recovered by the household and 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. In addition, the statement shall advise the household that:

(i) The household may request to be placed on an alternate issuance system after one report of nonreceipt;

(ii) After two reports in a six-month period of loss or theft prior to receipt,

the household shall be placed on an alternate delivery system;

(iii) After two reports in a six-month period of loss or theft prior to receipt and/or theft of an authorization document after receipt the State agency may delay or deny further replacements for such causes; and

(iv) If the statement of nonreceipt is not signed and returned within ten (10) days of the date the loss was reported, the State agency shall not replace the coupons or authorization document.

(d) *Time limits for making replacements.*

(1) Replacement issuances shall be provided to households within 10 days after report of nondelivery or loss (15 days if issuance was by certified or registered mail) or within two (2) working days of receiving the signed household statement required in paragraph (c) of this section, whichever date is later.

(i) Replacement of mutilated coupons shall be delayed until a determination of the value of the coupons can be made in accordance with paragraph (f)(3) of this section.

(ii) If the household has already been issued the maximum allowable number of countable replacements, subsequent replacements shall be delayed until the agency has verified that the original issuance was returned or the original authorization document was not transacted. In a system using authorization documents, due to the time it takes to post and reconcile all authorization documents, it may not be known at the time of the replacement request whether prior replacements are countable replacements and, therefore, whether the household has reached its limit. In such cases, the allotment shall be restored when the State agency verifies that the limit on countable replacements has not been reached.

(iii) 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.

(2) 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.

(e) *Replacing issuances lost in the mail or stolen prior to receipt by the household.*

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State agencies shall comply with the following procedures in replacing issuances reported lost in the mail or stolen prior to receipt by the household:

(1) Determine if the authorization documents or benefits were validly issued, if they were actually mailed, if sufficient time has elapsed for delivery or if they were returned in the mail. If a delivery of a partial allotment is reported, the State agency shall determine the value of the coupons not delivered and determine whether the report of receipt of a partial allotment is corroborated by evidence that the coupon loss was due to damage in the mail before delivery or by a discrepancy in the issuance unit's inventory;

(2) Determine, to the extent possible, the validity of the request for a replacement. This includes determining whether the original issuance has been returned to the State agency and, in a system utilizing authorization documents, whether the original authorization document has been transacted and, if so, whether the recipient's signature on the authorization document matches the signature on the ID card. In a Photo ID area, the State agency shall determine if the ID serial number annotated on the authorization document matches the serial number on the recipient's ID card;

(3) Issue a replacement in accordance with paragraphs (b), (c) and (d) of this section if the household is eligible;

(4) Place the household on an alternate delivery system, if warranted, in accordance with paragraph (g) of this section; and

(5) Take other action, such as correcting the address on the master issuance file, warranted by the reported nondelivery.

(f) *Replacing issuances after receipt by the household.* Upon receiving a request for replacement of an issuance reported as stolen or destroyed after receipt by the household, the State agency shall determine if the issuance was validly issued. The State agency shall also comply with all applicable provisions in paragraphs (b), (c) and (d) of this section, as well as the following procedures for each type of replacement:

(1) Prior to replacing an authorization document which was reported sto-

len after receipt by the household, the State agency shall determine, to the extent possible, the validity of the request for replacement. For example, the State agency may determine whether the original authorization document has been transacted and, if so, whether the signature on the original authorization document matches that on the household statement. In a Photo ID or serialized area, the State agency shall determine if the ID serial number annotated on the authorization document matches the serial number on the recipient's ID card. Any replacement which results in duplicate participation shall be considered a household error, and the replacement countable, when the ID serial number shown on the authorization document matches the serial number on the recipient's card, unless the ID card was reported lost or stolen prior to the replacement. The State agency may require households, on a case-by-case basis, to report the theft to a law enforcement agency and to provide verification of such report.

(2) Prior to replacing destroyed coupons or authorization documents, or destroyed food that was purchased with food stamp 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. The State agency shall provide replacements of coupons, authorization documents, and/or food in the actual amount of the loss, but not exceeding one month's allotment, unless the exception in paragraph (b)(3) of this section, applies.

(3) Households cannot receive a replacement for coupons lost or stolen after receipt.

(4) The State agency shall provide replacements for improperly manufactured or mutilated coupons or authorization documents as follows:

(i) Coupons received by a household, and subsequently mutilated or found to be improperly manufactured shall be replaced in the amount of the loss to

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the household. State agencies shall replace mutilated coupons when three-fifths of a coupon is presented by the household. The State agency shall examine the improperly manufactured or mutilated coupons to determine the validity of the claim and the amount of coupons to be replaced. If the State agency can determine the value of the improperly manufactured or mutilated coupons, the State agency shall replace the unusable coupons in a dollar-for-dollar exchange. After exchanging the coupons and completing a Form *FNS-135*, Affidavit of Return or Exchange of Food Coupons, the State agency shall destroy the coupons in accordance with the procedures contained in § 274.7(f). If the State agency cannot determine the value of the improperly manufactured or mutilated coupons, the State agency shall cancel the coupons by writing or stamping "canceled" across the face of the coupons and forward the coupons to FNS for a determination of the value by the U.S. Bureau of Engraving and Printing.

(ii) Authorization documents received by a household and subsequently mutilated or found to be improperly manufactured shall be replaced only if they are identifiable. "Identifiable" means that the State agency is able to determine the amount of the issuance and that the authorization document was validly issued to the household within the last 30 days. For example, if the authorization document serial number is legible, the State agency can determine from the record-for-issuance or manual authorization document log to which household the authorization document was issued, the date of issuance, and the amount. Similarly, if the case number and validity period are legible, the State agency may be able to determine to whom the authorization document was issued and the amount. If more than one authorization document was issued to the household and the State agency cannot determine which authorization document was mutilated, the replacement shall be issued in the lesser amount. Improperly manufactured or mutilated authorization documents shall be surrendered to the State agency.

(g) *Alternate issuance system for a household.* The State agency shall offer

to place a household in an alternate issuance system after the first report of nonreceipt, or when circumstances exist that indicate that the household may not receive its benefits through the normal issuance system, such as when a household has a history of reported nonreceipt of ATP's. After two requests for replacement of original or replacement ATP's reported as non-delivered in a six-month period, the State agency shall issue benefits to that household under an alternate issuance system. The two requests may be for either an original or a replacement ATP. The State agency shall keep the household on the alternate issuance system for the length of time the State agency determines to be necessary. The State agency may return the household to the regular issuance system if the State agency finds that the circumstances leading to the loss have changed and the risk of loss has lessened. The placement of a household on an alternate issuance system and the length of time the household is on this system is not subject to the fair hearing process.

(h) *Documentation and reconciliation of replacement issuances.* (1) 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 (c) of this section.

(2) The State agency shall maintain, in readily-identifiable form, a record of the replacements granted to the household, the reason, the month, and whether the replacement was countable as defined in paragraph (b)(2)(iv) of this section. 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. At a minimum, the system shall be able to identify and differentiate among:

(i) Authorization documents or coupons not received in, or stolen from, the mail, and authorization documents stolen after receipt; and

(ii) Replacement issuances which are not subject to a replacement limit.

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(3) Upon completion of reconciliation in a system utilizing authorization documents, the State agency shall update the record required in paragraph (h)(2) of this section to indicate whether both the original and replacement authorization documents were transacted. If both were not transacted, the record shall clearly indicate that the replacement authorization document was not a countable replacement.

(4) 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 authorization document 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 authorization document, so that all duplicate transactions may be identified.

(i) *Further action on replacement issuances.* The State agency shall take the following further actions on replacements:

(1) On at least a monthly basis, the State agency shall report to the appropriate office of the Postal Inspection Service all authorization documents reported as stolen or lost in the mail. The State agency shall assist the Postal Service during any investigation thereof and shall, upon request, supply the Postal Service with facsimiles of the original authorization document, if transacted, and the replacement authorization document and a copy of the nonreceipt statement.

The State agency shall advise the Postal Service if the original authorization document is not transacted.

(2) When a duplicate replacement authorization document is transacted, the State agency shall, at a minimum:

(i) Compare the handwriting on the authorization documents to documents contained in the household's case file, including the nonreceipt statement;

(ii) Establish a claim in accordance with § 273.18, where it appears that the household has transacted, or caused both authorization documents to be transacted; and

(iii) Refer the matter to the State agency's investigation unit, where indicated.

[54 FR 7004, Feb. 15, 1989, as amended at 54 FR 51351, Dec. 15, 1989; 56 FR 63617, Dec. 4, 1991]

§ 274.7 Coupon management.

(a) *Coupon inventory management.* State agencies shall establish coupon inventory management systems which ensure that coupons are requisitioned and inventories are maintained in accordance with the requirements of these regulations.

(1) State agencies shall monitor the coupon inventories of coupon issuers and bulk storage points to ensure that inventories are neither excessive nor insufficient to meet the issuance needs and requirements. In determining reasonable inventory needs, State agencies shall consider, among other things, the ease and feasibility of re-supplying such inventories from bulk storage points within the State. The inventory levels at coupon issuers and bulk storage points should not exceed a six-month supply, taking into account coupons on hand and on order.

(2) State agencies shall establish accounting systems for monitoring the inventory activities of coupon issuers. State agencies shall review the Form *FNS-250*, from coupon issuers and bulk storage points, to determine the propriety and reasonableness of the inventories. Forms *FNS-261*, Advice of Shipment, Forms *FNS-300*, Advice of Transfer (or an approved State agency form), and reports of returned mail-issued coupons, reports of replacements of mail-issued coupons, reports of improperly manufactured or mutilated coupons, reports of shortage or overage of food coupon books and physical inventory controls shall be used by State agencies to assure the accuracy of monthly reports, issuers' compliance with required inventory levels, and the accuracy and reasonableness of coupon orders.

(b) *Coupon controls.* State agencies shall establish control and security procedures to safeguard coupons that are similar to those used to protect currency. The exact nature of security arrangements will depend on State

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agency evaluation of local coupon issuance and storage facilities. These arrangements must permit the timely issuance of coupons while affording a reasonable degree of coupon security. The State agencies, as well as all persons or organizations acting on their behalf, shall:

- (1) Safeguard coupons from theft, embezzlement, loss, damage, or destruction;
- (2) Avoid unauthorized transfer, negotiation, or use of coupons;
- (3) Avoid issuance and transfer of altered or counterfeit coupons; and
- (4) Promptly report in writing to FNS any loss, theft, or embezzlement of coupons.

(c) *Coupon requisitioning, shipping and transferring.* (1) State agencies shall arrange for the ordering of coupons on the Form *FNS-260*, Requisition for Food Coupon Books, and the prompt verification and written acceptance of each coupon shipment. FNS shall be furnished with appropriate delivery hours and the names of the persons authorized to sign delivery acknowledgements.

(2) FNS shall assess the reasonableness and propriety of food stamp requisitions submitted by State agencies based on prior inventory changes and shall notify the State agency of any adjustments made to requisitions.

(3) FNS shall ship coupons, in such denominations as it may determine necessary, directly to State agency receiving points approved by FNS. FNS shall promptly advise the State agency in writing when coupons are shipped to receiving points using Form *FNS-261*, Advice of Shipment. Coupons shall be considered delivered to the State agency when FNS or its carrier has a signed receipt.

(4) Once coupons have been accepted by receiving points within the State, any further movement of the coupons between coupon issuers and bulk storage points within the State is at the risk of the State agency. To minimize the risk of loss, coupons should be shipped by armored vehicle or some other method of transportation that affords the State agency the maximum security available.

(5) In every instance when coupons are transported within a State, the person(s) transporting coupons shall:

- (i) Acknowledge in writing the receipt of the coupons;
- (ii) Provide as much protection for the coupons as is reasonable;
- (iii) Advise issuance supervisors of the routes to be taken, the shipment departure time and the estimated arrival time. This information, if in written form, may be destroyed after the coupons have been received.

(d) *Specimen coupons.* FNS may provide upon written request, non-negotiable specimen coupons to State agencies for the administration of the Program and enforcement of the rules, and to authorized food firms for the purpose of educating and training employees on Program operations.

(1) The State agency or firm shall store specimen coupons in secure storage with access limited to authorized personnel. The State agency or firm should maintain a record of specimen coupons received.

(2) Specimen coupons that are mutilated, improperly manufactured, or otherwise unusable, shall not be distributed by the State agency. Such coupons shall be destroyed by the State agency and the destruction shall be witnessed by two persons and noted on the perpetual inventory records maintained by the FNS regional offices for specimen coupons.

(3) Specimen coupons shall not be issued to private individuals or firms for the purpose of collection or display.

(e) *Replacement and destruction of coupons and authorization documents by issuance points.* (1) The State agency shall provide for the replacement to issuers of improperly manufactured or mutilated coupons as provided below. Replacement provisions pertaining to households are contained in §274.6.

(i) The State agency shall examine the improperly manufactured or mutilated coupons to determine the validity of the claim and the amount of coupons to be replaced.

(ii) If the State agency can determine the value of an improperly manufactured or mutilated coupon, the State agency shall replace the unusable coupon, dollar for dollar, when at least three-fifths of the coupon is presented

by the issuer. After the exchange, the State agency shall destroy the unusable coupon in accordance with the procedures contained in paragraph (f) of this section.

(iii) If the State agency cannot determine the value of the improperly manufactured or mutilated coupons, the State agency shall cancel the coupons by writing or stamping "canceled" across the face of the coupons and forward the coupons to FNS for a determination of the value by the U.S. Bureau of Engraving and Printing. The dollar amount shall be shown on the Form *FNS-250* report.

(2) The State agency shall void all authorization documents mutilated or otherwise rejected during the preparation process. The voided authorization documents shall either be filed for audit purposes or destroyed, provided destruction is witnessed by at least two persons and the State agency maintains a list of all destroyed authorization documents. Provisions pertaining to the replacement of authorized documents mutilated subsequent to receipt by a household are provided in § 274.6.

(f) *Destruction of unusable coupons found in inventory or received as claim payments.* (1) The State agency shall require coupon issuers, bulk storage points, and claims collection points to dispose of unusable coupons received from the manufacturer or received as payment for claims within 30 days after the close of the month in which unusable coupons shipped from the manufacturer are discovered, or are received from recipients as payment for claims. There is no dollar limit on the amount of coupons which may be disposed of by the State agency. Disposal shall be by one of the following two methods:

(i) Sending unusable coupons to the State agency for destruction; or

(ii) Holding the unusable coupons in secure storage pending examination and destruction by the State agency at the coupon issuance, bulk storage, or claims collection point.

(2) Prior to the destruction of improperly manufactured or mutilated coupons or coupon books that were exchanged, or collected from households for claims, the State agency shall:

(i) Verify that the coupons were improperly manufactured or mutilated.

If one or more boxes of coupons were improperly manufactured, the State agency shall contact FNS prior to disposition for instructions on the disposition of the coupons. If FNS has not responded within the 30-day time limit, the State agency shall destroy the box of coupons and document the manufacturing irregularity and the book numbers, and retain a copy of the State agency's request to FNS for permission to destroy.

(ii) If either the coupon issuer or bulk storage point, or the State agency cannot determine whether coupons or coupon books were in fact improperly manufactured or cannot establish the value of the coupons involved, the State agency shall promptly forward a written statement of findings and the canceled coupon(s) or coupon book(s) to FNS for determination.

(3) The State agency shall destroy the coupons and coupon books by burning, shredding, tearing, or cutting so they are not negotiable. Two State agency officials shall witness and certify the destruction and report the destruction information as follows:

(i) The destruction of improperly manufactured, mutilated or exchanged coupons from coupon issuers and bulk storage points shall be reported on the Form *FNS-471*, Coupon Account and Destruction Report, and submitted with the Form *FNS-250* for the appropriate month. For coupons received from recipients, a Form *FNS-135* shall be completed and attached to the Form *FNS-471*.

(ii) The destruction of coupons received from claims collection points that are the result of the payment of household claims shall be reported on the Form *FNS-471* (with Form *FNS-135* documentation) and submitted with the Form *FNS-209*, Status of Claims Against Households, for the appropriate months. A State agency may consolidate its monthly Form *FNS-471* for claims collection destruction reporting by providing one completed Form *FNS-471* that reflects the total claims destruction figure for each month. However, the State agency

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must attach a breakdown which reports the required Form *FNS-471* information for each reporting point. If a State agency chooses to submit a consolidated Form *FNS-471*, all individual Forms *FNS-471* must be retained by the State agency for future review and audit purposes. The Form *FNS-135* may not be consolidated, and all originals of that form must accompany a consolidated Form *FNS-471*.

(g) *Undeliverable or returned benefits.* The State agency shall exercise the following security and controls for authorization documents and coupons that are undeliverable or returned during the valid issuance period. Forms *FNS-471* and *FNS-135* shall be completed by the State agencies, as appropriate.

(1) Coupons which are in book form, complete, and with original and unsigned covers shall be returned to inventory and noted as such on the issuance log, and the Form *FNS-250*.

(2) Authorization documents shall be recorded in the control log noting the serial number, household name and case number. The documents shall be kept in secure storage with limited access. The documents may be voided as long as households which report non-delivery are provided an immediate replacement.

(h) *Old series coupon exchange.* Households which have old-series (no longer issued) coupons shall be entitled to a dollar-for-dollar exchange of old-series coupons for current series coupons. Households in possession of old-series coupons shall submit the coupons and a request for exchange to the State agency. State agencies may make direct exchange to claimants or request FNS to make the exchange. Forms *FNS-471* and *FNS-135* shall be completed by the State agencies, as appropriate.

[54 FR 7004, Feb. 15, 1989, as amended at 54 FR 51351, Dec. 15, 1989]

§ 274.8 Responsibilities of coupon issuers, and bulk storage and claims collection points.

(a) *Receipt of coupons.* Coupon issuers, and bulk storage and claims collection points shall promptly verify and acknowledge, in writing, the content of each coupon shipment or coupon transfer delivered to them and shall be re-

sponsible for the custody, care, control, and storage of coupons.

(b) *Inventory levels.* Coupon issuers and bulk storage points shall maintain a proper level of coupon inventory not in excess of reasonable needs, taking into consideration the ease and feasibility of resupplying such coupon inventories. Such inventory levels should not exceed the six-month supply provided for in § 274.7(a).

(c) *Monthly reporting.* Coupon issuers, and bulk storage and claims collection points shall report monthly to FNS, through the State agency, using Form *FNS-250*, as provided in § 274.4.

(d) *Supporting documentation.* Coupon issuers and bulk storage points shall submit to the State agency supporting documentation which will allow verification of the monthly report as provided in § 274.4. At a minimum, such documentation shall include documents supporting coupon shipments, transfers, and issuances. In those States using issuance systems with authorization documents, coupon issuers shall submit transacted authorization documents batched according to each day's activity, in accordance with the schedule prescribed by the State agency but, in any case, not less often than monthly.

(e) *Handling of improperly manufactured or mutilated coupons.* Coupon issuers, and bulk storage and claims collection points shall cancel improperly manufactured or mutilated coupons or coupon books by writing or stamping "canceled" across the face of the coupon(s) and coupon book(s). Depending upon State agency policy, the coupon issuer or bulk storage point shall forward the coupons with the appropriate documentation (determined by the State agency) to the State agency, or hold the coupons in secure storage, pending examination and destruction by the State agency at the coupon issuer, bulk storage point or claims collection location. The documentation is not required if the State agency inspects the coupons at the issuance, storage or collection point. Additional requirements pertaining to the handling of these types of coupons by the State agency are provided in § 274.7(e).

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§ 274.9 Closeout of a coupon issuer.

(a) *Definition of responsibilities.* Whenever the services of a coupon issuer or bulk storage point are terminated, the State agency shall perform the responsibilities described below. If a coupon issuer or bulk storage point has more than one functioning unit and one of these facilities is terminated, the coupon issuer or bulk storage point shall fulfill the responsibilities described in paragraphs (b) and (c) of this section. The coupon issuer or bulk storage point shall notify the State agency of the pending termination of any of its services prior to the actual termination. The State agency shall promptly notify FNS as provided in §274.1(d).

(b) *Closeout accountability.* The State agency shall perform a closeout audit of a coupon issuer or bulk storage point within 30 days of termination of the issuance or storage point. The State agency shall report the findings of the audit to FNS immediately upon its completion. If the audit determines that the final Form *FNS-250* is incorrect, the State agency shall promptly provide a corrected report to FNS.

(c) *Transfer of coupon inventory.* (1) Prior to the transfer of coupon inventory to another coupon issuer or bulk storage point, the State agency shall perform an actual physical count of coupons on hand.

(2) The State agency shall transfer the inventory to another coupon issuer or bulk storage point, preferably within the same project area. The transfer of coupons shall be properly reported and documented by both the point being terminated and the point receiving the inventory.

(d) *Maintenance of participant service.* (1) At least 30 days before actual termination of a coupon issuer, the State agency shall notify project area participants of the impending closure. Notification shall include identification of alternative issuance locations and available public transportation. The State agency shall post notices at the offices of the coupon issuer of the impending closure and may use mass media or notices with allotments to advise participants about the expected closure of the issuance office.

(2) If closure of the issuer will affect a substantial portion of the caseload or

a specific geographic area, the State agency shall take whatever action is necessary to maintain participant service without interruption.

(3) If a coupon issuer or bulk storage point is to be closed for noncompliance with contractual requirements and alternative issuance facilities or systems are not readily available, the State agency may continue to use the coupon issuer or bulk storage point for a limited time. In this situation, the State agency shall perform weekly onsite reconciliations of coupon issuance. The State agency shall continue to actively seek other issuance or storage alternatives.

§ 274.10 Use of identification cards and redemption of coupons by eligible households.

(a) *General provisions.* State agencies shall issue an ID card to each certified household as proof of Program eligibility. Upon request, the household or the authorized representative, shall present the household's ID card at issuance points, retail food stores or meal services in order to transact the allotment authorization or when exchanging benefits for eligible food. The household member or members whose name(s) appear on the ID card shall sign the coupon books issued to the household.

(1) All ID cards shall be issued in the name of the household member who is authorized to receive the household's issuance. In areas not designated by FNS as requiring Photo ID cards, the ID card shall contain space for the name and signature of the household member to whom the coupon allotment is to be issued and for any authorized representatives designated by the household. Section 274.5(b) provides further requirements pertaining to emergency authorized representatives. Any person listed on the ID card shall sign the ID card before that person can use it to obtain benefits. If the household does not name an authorized representative, the State agency shall void that area of the ID card to prevent names and signatures being entered at a later date. The ID card may be serially numbered.

(2) The State agency shall limit issuance of ID cards to the time of initial certification, with replacements made only in instances of loss, mutilation, destruction, changes in the person authorized to obtain coupons, or when the State agency determines that new ID cards are needed to keep the photographs up-to-date or if the State agency changes its ID card format or system. Whenever possible, the State agency shall collect the ID card that it is replacing.

(3) The State agency shall place an expiration date on all temporary ID cards, and on the regular ID cards issued to households certified for delivered meals for a specific period, and to homeless households certified for restaurant meals.

(4) Specially-marked ID cards shall be issued in the following circumstances:

(i) 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 coupons to purchase meals prepared for and delivered to them by a nonprofit meal delivery service authorized by FNS. Any household eligible for and interested in using delivered meal services shall have its ID card marked with the letter "M".

(ii) Eligible household members 60 years of age or over and their spouses, or those receiving SSI and their spouses, may use coupons issued to them to purchase meals prepared especially for them at communal dining facilities authorized by FNS for that purpose. Any household eligible for and interested in using communal dining facilities in those States or project areas where restaurants are authorized to accept food stamps, shall have its ID card marked with the letters "CD". In areas where restaurants are not authorized to accept food stamps, the State or project area may mark such ID's with the letters "CD".

(iii) Eligible homeless households may use food stamp benefits to purchase meals from restaurants authorized by FNS for such purpose. Any homeless household eligible for, and interested in, using restaurants in those

areas where restaurants are authorized to accept food stamp benefits shall have a specially-marked ID card. The State agency shall provide samples of specially-marked ID cards to authorized restaurants.

(iv) Eligible households residing in areas of Alaska determined by FNS as areas where access to retail food stores is difficult and which rely substantially on hunting and fishing for subsistence may use all or any part of the coupons issued to purchase hunting and fishing equipment such as nets, hooks, rods, harpoons and knives, but may not use coupons to purchase firearms, ammunition, and other explosives. Any household residing in a remote section of Alaska which has been determined by FNS to be an area in which food coupons may be used to purchase hunting and fishing equipment shall have its ID card marked with the letters "HF".

(5) ID cards delivered to households by mail shall not be mailed in the same envelope with authorization documents or coupons.

(b) *Photo ID cards.* (1) Photo ID cards shall be issued in those project areas or portions thereof with 100,000 or more food stamp participants, except for those project areas serviced entirely by mail issuance or an Electronic Benefit Transfer system, or where FNS, in consultation with the Office of the Inspector General, approves a State agency's request for an exemption. FNS shall respond to a State agency's request for exemption within 30 days of its receipt of the request.

(i) FNS shall evaluate the January participation data reported as an attachment to the March Form *FNS-388* report. Based on the evaluation, FNS shall notify State agencies at the beginning of each fiscal year of any areas that either require or no longer require the use of Photo ID cards. In cases where an entire State is a single project area, FNS shall consult with the State agency to determine whether Photo IDs should be required in any specific parts of the project area. At the conclusion of this consultation, FNS shall inform the State agency whether the use of Photo IDs will be mandated in any parts of the State agency, based on the need to protect

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Program integrity, and the cost-effectiveness of Photo ID cards.

(ii) In cases where a project area serves between 100,000 and 110,000 participants, FNS shall inform the State agency in which the project area is located that it is prepared to mandate the use of Photo IDs in the project area. FNS shall also inform the State agency that it will not mandate use of Photo ID's if, within 30 days of being notified by FNS that Photo ID's must be used, the State agency demonstrates to FNS that participation in the project areas has fallen below the 100,000 participant level in the recent past, or justifies to FNS why participation is likely to fall below that level during the next year.

(2) FNS may, at any time, in consultation with the Office of the Inspector General, designate project areas or portions thereof with less than 100,000 participants as requiring the use of Photo ID cards if, in reviewing such factors as the level of duplicate issuances and results of management evaluation reviews, the Department determines that the issuance of Photo ID cards in such areas would be justified.

(3) A State agency may request that FNS require that Photo IDs be mandated throughout either the entire State or specified project areas. FNS shall respond to such requests within 30 days of the request and, if the request is not approved, FNS shall justify its reasons for the disapproval to the State agency.

(4) In project areas where issuance of Photo ID cards is mandatory, the State agency shall issue a Photo ID card at the time of certification to each eligible household except those listed in §274.10(b)(4). Households exempt from mandated Photo ID cards shall be issued ID cards which meet the specifications in paragraph (d) of this section except that in lieu of a photograph, the State agency shall annotate the cards to show an exception was granted to the household and that the ID card is valid. The following households are exempt from the Photo ID requirement:

(i) Households certified by out-of-office interviews as specified in §273.2(e)(2). However, the State agency shall replace the non-Photo ID card

issued to such households with a Photo ID card when the appropriate household member or authorized representative visits the certification office. The State agency shall not require any member of such a household to visit the office exclusively for the purpose of issuing a Photo ID card;

(ii) Household members whose religion does not allow them to be photographed. The State agency shall require such a household to provide a signed statement to the effect that the members' religious beliefs do not allow them to be photographed;

(iii) Households entitled to expedited service if the State agency's Photo ID card system is incapable of producing a Photo ID card in time for the household to participate as required by §273.2(i). A Photo ID card shall be issued to the household prior to issuance of the household's next allotment;

(iv) Households certified under the SSA-food stamp joint processing rules in §273.2(k). State agencies shall not require such households to obtain Photo IDs as long as they continue to be certified for food stamps at SSA offices. However, a household shall obtain a Photo ID if a household member or authorized representative reports to a food stamp office for recertification; and,

(v) Residents of drug/alcohol treatment and rehabilitation programs.

(5) In addition to the general provisions in paragraph (a) of this section, Photo ID cards shall include the photograph of the person who will receive the household's issuance; i.e., who will either transact the household's authorization document or pick up the household's allotment. A Photo ID card shall be signed by only the person pictured on the card, who may be the household member or authorized representative. Only the person photographed may obtain the household's coupons. All Photo ID card formats are subject to FNS approval.

(6) Photo ID cards shall be serially numbered and laminated after they are signed by the person whose photograph appears on the card. ID cards shall also include a color photograph of the person designated by the household to obtain coupons and the household's case

number or other identifying information.

(7) A Photo ID card used to receive benefits under a welfare or public assistance program may be adapted for food stamp purposes if it meets the specifications contained in this section and can be annotated to indicate food stamp eligibility.

(8) The State agency shall provide a household with a reasonable opportunity to obtain a food stamp Photo ID card in any project area where its use is mandated.

(i) A household required to have a Photo ID card shall not participate until such time as a household member or a designated authorized representative obtains such a card. If a designated authorized representative does not obtain the required Photo ID, the household may designate a household member or another authorized representative to be photographed.

(ii) If the person whose photograph appears on the ID is unable to travel to the issuance point to obtain a particular allotment, the household may use the emergency authorized representative procedures provided in § 274.5 and in paragraph (c) of this section.

(9) State agencies which have the capability may develop systems to issue more than one household member a Photo ID card. These systems shall ensure that the safeguards provided by Photo ID cards, as specified in this section, are maintained.

(10) If a mutilated or altered Photo ID card is presented at the issuance point, the household shall obtain a replacement Photo ID card prior to issuance.

(11) A household shall be entitled to unobtained benefits, lost as a result of being unable to obtain a particular allotment, if the issuance month elapses between the time the household requested a replacement Photo ID card and the delivery of that card to the household.

(12) FNS may waive one or more of the requirements in this section if a State agency can demonstrate to FNS that its alternate ID card or system will provide adequate safeguards against fraudulent and/or duplicate issuances.

(c) *Emergency authorized representative and recipient identification.* State agencies shall develop a method by which a household may designate an emergency authorized representative to obtain the household's allotment when none of the persons specified on the ID is available.

(1) At a minimum, the method developed by the State agency shall require a document with the signature of the emergency authorized representative as well as a place for the household member named on the ID card to sign designating the emergency authorized representative and attesting to the signature of the emergency authorized representative. The designation may be on the ID card or authorization document or a separate form. The household shall not be required to travel to a food stamp office to execute an emergency designation. The emergency authorized representative may present a separately written and signed statement from the head of the household or his or her spouse, authorizing the issuance of the certified household's food stamps to the authorized representative. The emergency representative shall sign the written statement from the household and present the statement and the household ID card to obtain the allotment. A separate written designation is required each time an emergency representative is authorized.

(2) In any issuance system, the cashier shall compare the signatures on the issuance document and on the ID card. If they do not match, issuance shall not be made.

(i) If the household is required by these regulations to present a Photo ID card, coupons shall be issued only when the person presenting the authorization document or requesting the coupons is pictured on the ID card. The cashier shall write the serial number of the Photo ID card on the authorization or issuance document.

(ii) If the Photo ID card appears to be mutilated or altered, the issuing agent shall not issue the coupons, but shall require the household to obtain a replacement ID card from the State agency.

(d) *Eligible food.* A household member should sign each coupon book issued to

the household. The coupons 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 residing in certain designated areas of Alaska, the purchase of hunting and fishing equipment with coupons. Uncanceled and unendorsed coupons of \$1 denomination, returned as change by authorized retail food stores, may be presented as payment for eligible food. All other detached coupons may be accepted only if accompanied by the coupon book which bears the same serial number as the detached coupons. It is the right of the household or the authorized representative to detach the coupons from the book.

(e) *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 coupons to purchase meals prepared for and delivered to them by a nonprofit meal delivery service authorized by FNS.

(f) *Residents of certain institutions.* (1) Members of eligible households who are narcotics addicts or alcoholics and who regularly participate in a drug or alcoholic treatment and rehabilitation program may use coupons to purchase food prepared for them during the course of such program by a private nonprofit organization or institution or a publicly operated community mental health center which is authorized by FNS to redeem the coupons through wholesalers in accordance with §278.1, or which redeems coupons at retail food stores as the authorized representative of participating households in accordance with §278.2(g).

(2) Eligible residents of a group living arrangement may use coupons issued to them to purchase meals prepared especially for them at a group living arrangement which is authorized by FNS to redeem coupons at wholesalers in accordance with §278.1, or which redeems coupons at retail food stores as the authorized representative of participating households in accordance with §278.2(g).

(3) Residents of shelters for battered women and children as defined in §271.2 may use their coupons to purchase meals prepared especially for them at a shelter which is authorized by FNS in accordance with §278.1 to redeem at wholesalers, or which redeems at retailers as the authorized representative of participating household in accordance with §278.2(g).

(g) *Homeless food stamp households.* Homeless food stamp households may use their food stamp benefits to purchase prepared meals from authorized homeless meal providers.

(h) *Use of ID cards.* Upon request, the household or the authorized representative shall present the household's ID card to the retail food store or meal service when exchanging food coupons for eligible food.

(i) *Prior payment prohibition.* Coupons shall not be used to pay for any eligible food purchased prior to the time at which the coupons are presented to authorized retail food stores or meal services. Neither shall coupons 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.

(j) *Cash change.* When change in an amount less than \$1 is required in a coupon transaction, the household shall receive the change in cash not to exceed 99 cents. However, in the case of homeless food stamp households, neither cash change nor credit slips shall be returned for coupons used for the purchase of prepared meals from authorized homeless meal providers. Such meal providers may use uncanceled and unmarked \$1 coupons which were previously accepted for meals served to food stamp recipients when change is required for \$5 and \$10 coupons. However, in the case of homeless food stamp households, neither cash change nor credit slips shall be returned for food stamps used for the purchase of prepared meals from authorized public and private nonprofit homeless meal providers. Such meal providers may use the lowest denomination coupons that are uncanceled and unmarked for making change in food stamp transactions. Restaurants which are authorized by FNS under §278.1 to provide

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meals to homeless food stamp recipients shall return cash change to such recipients in food stamp transactions when the amount of change due is less than one dollar. If change of one dollar or more is due, uncanceled and unmarked one dollar coupons shall also be used for change.

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

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

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

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

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

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

(c) *Accountable documents.* (1) HIR cards, authorization documents, and mandated Photo ID cards shall be considered accountable documents. The State agency shall provide the following minimum security and control procedures for these documents:

- (i) Preprinted serial numbers;
- (ii) Secure storage;

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(iii) Access limited to authorized personnel;

(iv) Bulk inventory control records;

(v) Subsequent control records maintained through the point of issuance or use, and

(vi) Periodic review and validation of inventory controls and records by parties not otherwise involved in maintaining control records.

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

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

§ 274.12 Electronic Benefit Transfer issuance system approval standards.

(a) *General.* This section establishes rules for the approval, implementation and operation of on-line Electronic Benefit Transfer (EBT) systems for the Food Stamp Program as an alternative to issuing food stamp coupons. An on-line EBT system is a computer-based system in which the benefit authorization is received from a central computer through a point-of-sale (POS) terminal. Eligible households utilize magnetic-stripe plastic cards and have accounts maintained at the central computer in lieu of food stamp coupons to purchase food items at authorized food retailers. Once certified, the household's benefits are electronically loaded into a central computer account for each month during the certification period. Checkout lanes at authorized food retailers are to be equipped with POS terminals. When the transaction occurs, the POS terminals connect on-line to the central computer database; verify the validity of the Personal Identification Number (PIN), card number, and the amount of available benefits in an EBT account; obtain authorization for each purchase and initiate the debiting of the household's account and the crediting of the retailer's account.

(b) *Program Administration.* (1) The State food stamp agency shall submit Planning and Implementation Advanced Planning Documents (APDs) for FNS approval in accordance with the

requirements of §277.18 of this chapter and this section. The State agency may implement an EBT system statewide or in only some areas of the State. However, the State agency shall implement EBT systems in a pilot area prior to expansion Statewide or to other project areas. The areas of pilot operation and full-scale operation shall be identified in the Planning APD when submitted to FNS for approval.

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

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

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

(c) *Pilot Project Approval Requirements*—(1) *EBT Planning APD*. The State agency shall comply with the two-stage approval process for APDs in

submitting an EBT system proposal to FNS for approval. In addition to the requirements for a Planning APD specified under §277.18(d)(1) of this chapter, the State agency shall commit itself to provide the following as part of the project planning activities to FNS for approval:

(i) *Pilot Project Site and Expanded Site Descriptions*. At a minimum, the proposed pilot project site and expanded site descriptions shall include the geographical boundaries, average number and characteristics of food stamp program participants and households, the number and type of authorized food retailers and authorized retailers bordering the pilot and expanded areas, the food stamp redemption patterns of food retailers, the status of commercial POS deployment and the estimated number of checkout lanes that will require POS equipment; and

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

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

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

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

(B) The procedures for performing the functional demonstration, each participant's responsibility during the demonstration, and procedures for collecting data to evaluate system functionality. The Department reserves the right to participate and conduct independent testing as necessary during the Functional Demonstration.

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

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

(A) The types of testing to be performed;

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

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

(D) The Department reserves the right to participate and conduct inde-

pendent testing as necessary during the Acceptance testing and appropriate events during system design, development, implementation and operation.

(iv) An Acceptance Test Report. The State agency shall provide a separate report after the completion of the acceptance test. The report shall summarize the activities, describe any discrepancies, describe the proposed solutions to discrepancies, and the timetable for their retesting and completion. In addition, the report shall contain the State agency's recommendations regarding implementation of the EBT system in the pilot site.

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

(vi) A Pilot Project Implementation Plan. The pilot project implementation plan shall include the following:

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

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

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

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

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

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

(i) Coupon Issuance Cap. The State agency shall provide an analysis of current statewide coupon issuance costs as compared to the projected costs of issuing benefits in the State after implementation of the EBT system, both for the EBT system and any remaining coupon issuance areas. The coupon issuance cap shall be determined as follows:

(A) The State agency shall utilize the statewide coupon issuance costs, which include State agency costs in paragraph (c)(3)(ii) of this section and Federal costs in paragraph (c)(3)(iii) of this section, calculated from issuance costs for the four Federal fiscal quarters prior to submitting the EBT Implementation APD. Case-month cost represents the average Federal share of administrative costs to issue program benefits to a case for one month. An alternative base period may be utilized, with approval from FNS, if the State agency can demonstrate that the alternative period would be more accurate or other circumstances prevent use of the previous four Federal fiscal quarters as the baseline.

(B) The annual Federal issuance cap, to be in place from the time benefits are first issued through EBT, shall be calculated by multiplying the case-month cost for the coupon system being replaced by the number of food stamp program case-months statewide for the year and by the appropriate inflation factor. The inflation factor shall be derived in accordance with

paragraph (k) of this section. The issuance cap shall be effective from the date benefits are issued to households through the EBT system during the pilot project.

(ii) State Coupon Issuance Costs.

(A) Beginning at the point the household is established in the Issuance Authorization File, all direct State administrative costs of the current coupon issuance system shall be identified.

(B) State operating costs of coupon issuance shall include, but shall not be limited to, direct allowable costs for personnel, fringe benefits, travel, equipment, supplies, contracts, construction and other direct costs associated with coupon issuance. Indirect costs shall not be included in the determination of State issuance costs for purposes of calculating the coupon issuance cap. Such indirect costs are defined as costs which are included in the State agency's indirect cost proposal and approved for cost charging through an indirect cost rate. The State agency shall provide narrative explanations to clarify each category and how it was calculated.

(iii) Federal Coupon Issuance Costs. Federal costs associated with the issuance of coupons in a particular State are to be included in the coupon issuance cap. These Federal costs shall include:

(A) Case-month costs for coupon printing, shipping, processing, and reconciliation. The case-month figure associated with these costs will be available from FNS upon request;

(B) Monthly mail issuance losses up to the tolerance limit approved by FNS;

(C) Monthly duplicate issuance losses absorbed by FNS; and

(D) Fifty percent of the allowable State administrative costs pertaining to coupon issuance.

(iv) EBT Equipment and Start-up Costs.

(A) For the purpose of assigning the costs to the post-EBT implementation issuance cap, costs to design and develop the EBT system, incurred from the approval date of the Implementation APD but prior to actual issuance of benefits through the EBT system, shall be assigned over the life of the EBT system for a period not to exceed

seven years. The seven year period shall begin when the initial household is issued benefits in the pilot project. Such design and development costs shall be assigned at the end of the period and claims shall be made for any assigned costs that exceed the total cap for the seven years. For a period of one year from the first issuance in the pilot, costs incurred during the pilot project that exceed the issuance cap may be treated in the same manner as these design and development costs and assigned to the cap at the end of the seven year period.

(B) For the purpose of claiming Federal financial participation in capital expenditures, such costs shall be charged from the time operations begin in accordance with 7 CFR 277.18(i)(3) and appendix A of 7 CFR 277.18. Equipment costs shall include the cost of installation and shall be applied to the issuance funding cap as amortized. EBT equipment costs shall be identified in the EBT system budget as a separate component, both for the pilot and the fully operational system.

(v) Costs of EBT Planning APD. The costs for EBT project planning activities shall be excluded from the case-month issuance cap described in paragraph (c)(3) of this section. Planning costs shall include costs attributed to the preparation of the Planning APD and the completion of the documentation contained in the FNS approved Planning APD.

(vi) EBT operational costs. In accordance with appendix A of §277.18 of this chapter, the State agency shall identify the allowable EBT operational costs for reimbursement. Operations costs shall begin from the date benefits are issued to recipients in the pilot project. The State agency shall provide cost information as follows:

(A) The State agency shall include EBT system operation costs which include, as appropriate, but are not limited to: labor hours and costs by job category and by program for each unit, direct non-labor costs by program for each agency, vendor charges, if any, computer usage (CPU, disk storage, tapes, printing), the equipment amortization/lease and maintenance (including POS hardware and installation costs), telecommunications installa-

tions, recurring telecommunications, benefit card stock and equipment, supplies, printing and reproduction, travel, postage, automated clearinghouse charges, wire transfer fees and other such settlement fees, and other direct costs. Indirect costs shall not be included as EBT system operation costs.

(B) The State agency shall be responsible for the post-EBT implementation issuance costs that exceed the coupon issuance cap in any one year. These costs shall include all issuance costs incurred Statewide for food coupon and EBT issuance. The State agency shall document any issuance costs it projects to be above the cap in the budget submitted to FNS for approval.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(N) The average number of transactions by type;

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

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

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

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

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

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

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

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

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

(B) The direct costs for each agency and vendor. The line items to be included are computer usage (CPU, disk

storage, tapes, printing), the equipment amortization/lease and maintenance (excluding POS hardware), telecommunications installations, recurring telecommunications, benefit card stock and equipment, supplies, printing and reproduction, travel, postage, Automated Clearinghouse and wire transfer fees, in addition to other direct costs.

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

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

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

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

coupon and EBT systems shall be reported and compared to the coupon system costs.

(d) *Expansion Requirements.* After a minimum of three months of pilot project operation with the full pilot caseload, the State agency may decide to expand the EBT system. If expansion is selected, the State agency shall submit an APD Update to request FNS approval to implement and operate the EBT system in areas beyond the pilot area. The APD Update shall contain the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

(vi) Authorizing benefit delivery;

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

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

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

(x) Inventorying and securing accountable documents; and

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

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

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

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

(iv) Sending messages authorizing or rejecting purchases;

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

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

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

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

(3) *Crediting Retailers and Financial Institutions for Redeemed Benefits.* (i)

Verifying electronic transactions flowing to or from participating retailers' bank accounts;

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

(iii) Totalling all credits accumulated by each retailer;

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

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

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

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

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

(4) *Managing Retailer Participation.* The State agency shall:

(i) Convey retailer authorization information provided by FNS to the system operator and follow up on actions taken regarding any disqualification or withdrawal by an authorized food retailer from the Food Stamp Program within two business days after receipt;

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

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

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

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

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

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

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

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

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

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

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

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

(4) *Issuance of Benefits.* State agencies shall establish an availability date for household access to their benefits and inform households of this date.

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

(ii) A State agency shall make adjustments to an account after the availability date 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, store host computer or POS device. By definition, an adjustment must be

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equal to the amount of the original error transaction and may result in either a debit or credit to the household.

(A) Client initiated adjustments shall be made no later than 5 business days from the date the household notifies the State agency of the error. Business days are defined as Automated Clearing House (ACH) days.

(B) The household has 180 days from the date of the error to notify the State agency of the need for an adjustment.

(C) Retailer initiated adjustments shall be made no later than 10 business days from the date the error occurred.

(D) If there are insufficient benefits remaining to cover the entire adjustment, the adjustment shall be made using the remaining balance, with the difference being subject to collection in a future month, subject to the limitations found in §273.15 of this chapter and in this section.

(E) The household shall be given, at a minimum, adequate notice in accordance with §273.13 of this chapter.

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

(G) Should the household dispute the adjustment and a request is made within 10 days of the notice, a provisional credit must be made to the household's account pending resolution.

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

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

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

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

(iv) An immediate hold shall be placed on accounts at the time notice is received from a household regarding the need for card or PIN replacement. The State agency shall implement a reporting system which is continually operative. Once a household reports that their EBT card has been lost or stolen, the State agency shall assume liability for benefits subsequently drawn from the account and replace any lost or stolen benefits to the household. The State agency or its agent shall maintain a record showing the date and time of all reports by households that their card is lost or stolen.

(v) The State agency may impose a replacement fee with the approval of FNS. The fee shall not exceed the cost to replace the card. Any card replacement fee, the replacement threshold, frequency and circumstances to which the fee shall be applicable shall be identified when submitting the Advance Planning Document for FNS approval.

(6) *Benefit Conversion.* (i) Households leaving an EBT project area must be able to convert their electronic benefits to coupons. At State agency option, a household entering an EBT area may be required to spend any remaining food coupons prior to utilizing the EBT system to access their benefits. Conversion shall occur within one business day following notice to the State agency by the household when inventories of food coupons are stored at local agency locations. Conversion shall occur within three business days if the State maintains coupon inventories in a central location.

(ii) Requests for conversions to food coupons solely for purposes of shopping outside the pilot area shall be prohibited. However, the State agency may allow benefits in an EBT account to be converted to coupons for short-term absences from the EBT system area for family emergencies or similar isolated occurrences.

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

(iv) At State agency option, a limit may be imposed on the number of conversions per household that may occur

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annually for the purposes prescribed under paragraph (f)(6)(ii) of this section. A limit on conversions to food coupons shall not be imposed on households moving from the EBT area.

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

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

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

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

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

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

(ii) The State agency shall expunge benefits that have not been accessed by the household after a period of one year. Issuance reports shall reflect the adjustment to the State agency issuance totals to comply with monthly issuance reporting requirements prescribed under § 274.4 of this part.

(iii) Procedures shall be established to permit the appropriate managers to adjust benefits that have already been posted to a benefit account prior to the household accessing the account; or, after an account has become dormant or the household has not used the funds which remain after conversion. The procedures shall also be applicable to removing stale accounts for off-line

storage of benefits or when the benefits are expunged. Whenever benefits are expunged or stored off-line, the State agency shall document the date, amount of the benefits and storage location in the household case file.

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

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

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

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

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

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

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

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

(vi) Written materials and/or other information, including the specific rights to benefits in an EBT system, shall be provided as prescribed under 7

CFR 272.4(b) for bilingual households and for households with disabilities. Written materials shall be prepared at an educational reading level suitable for food stamp households;

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

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

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

(i) Retailers who do not have immediate access to telephones at the time of purchase shall be accommodated by an alternative system (e.g., manual vouchers with preliminary or delayed telephone verification) for redeeming food sales to eligible food stamp customers. These retailers include stationary food stores which opt to make home deliveries to food stamp households, house-to-house trade routes which operate on standing orders from customers, e.g. milk and bread delivery routes, food buying cooperatives authorized to participate as well as other food retailers authorized under §278.1 of this chapter. Prior to delivery or upon returning to the store, the retailer shall telephone the EBT central computer or hotline number to log the transaction and obtain an authorization number. If authorization cannot be obtained before or at the time of purchase, the retailer assumes the risk for sufficient benefits being available in the household's account. Any alternate method cannot be burdensome on either the household or the retailer, and it must include acceptable privacy and security features. Such systems shall only be available to retailers that cannot be equipped with a POS terminal at the time of sale.

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

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

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

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

(i) Retailers shall not establish special checkout lanes which are only for food stamp households or welfare customers. If special lanes are designated

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for the purpose of accepting other electronic debit or credit cards and/or other payment methods such as checks, food stamp customers with EBT cards may also be assigned to such lanes as long as other commercial customers are assigned there as well.

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

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

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

(C) For newly authorized food retailers and authorized food retailers bordering the EBT system area, the State agency and food retailer shall negotiate a mutually agreed level of terminal deployment up to the number of lanes per store. The State agency may consult with the appropriate FNS field office in order to determine the previous food stamp redemption activity that could be utilized in determining the initial number of terminals to deploy in newly authorized retailers or border stores. The State agency shall examine household shopping patterns in the EBT operating area in order to establish the needs for border store equipment. Redemption information shall remain confidential.

(D) Any food retailer shall be able to submit further evidence that it warrants additional terminals after the initial POS terminals are deployed.

Food stamp households may also submit evidence to the State agency that additional POS terminals are needed.

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

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

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

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

(iii) Comply with all Food Stamp Program regulations with respect to retailer participation in the program and treatment of Food Stamp Program households. This shall include specific requirements with respect to the deployment of terminals and the identification of checkout lanes for food stamp customers;

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

(h) *Performance and Technical Standards.* The State agency shall ensure that EBT systems comply with Point of Sale (POS) technical standards established by the American National Standards Institute (ANSI) or International Organization for Standardization (ISO) where applicable. In addition, the State agency shall ensure that the EBT system meets performance and technical standards in the areas of system processing speeds, system availability and reliability, system security, system ease-of-use, minimum card and terminal requirements,

performance bonding, and a minimum transaction set. With prior written approval from FNS, the State agency may utilize the prevailing industry performance standards in its region in lieu of those identified in this section. The standards shall be included in all requests for proposals and contracts.

(1) *System Processing Speeds.* (i) For leased line systems, 98 percent of EBT transactions shall be processed within 10 seconds or less and all EBT transactions shall be processed within 15 seconds. Leased line systems rent telecommunications carriers specifically to connect to the central authorizing computer. For dial-up systems, 95 percent of the EBT transactions shall be processed within 15 seconds or less and all EBT transactions shall be processed within 20 seconds or less. Dial-up systems utilize existing telecommunications lines to dial up and connect to the central computer at the time of the transaction. Processing response time shall be measured at the POS terminal from the time the 'enter' or 'send' key is pressed to the receipt and display of authorization or disapproval information. Third party processors, as defined in paragraph (h)(5) of this section, shall be required by the State agency to comply with the same processing response times required of the primary processor.

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

(2) *System Availability and Reliability.*

(i) The EBT system central computer shall be available 99.9 percent of scheduled up-time, 24 hours a day, seven days per week. Scheduled up-time shall mean the time the database is available for transactions excluding scheduled downtime for routine maintenance. The total system, including the system's central computer, any network or intermediate processing facilities and cardholder authorization processors, shall be available 98 percent of scheduled up-time, 24 hours per day, 7 days per week. Scheduled downtime for routine maintenance shall occur during non-peak transaction periods. State

certification procedures shall determine whether intermediate processing facilities and cardholder authorization processors are capable of complying with system availability standards prescribed herein prior to permitting the interface with the central computer system.

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

(iii) Reconciliation reports and other information regarding problematic transactions shall be made available to the State agency by the system operator, individual retailers, households or financial institutions as appropriate. Reports on problematic transactions, including inaccurate transactions, shall be delineated by the source of the problem such as card failure, POS terminal failure, interruption of telecommunications, or other component failure. Errors shall be resolved in a timely manner.

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

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

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

(A) Computer hardware controls that ensure acceptance of data from authorized terminals only. These controls

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

(iv) Administrative and operational procedures shall ensure that:

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

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

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

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

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

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

(B) Completeness and timeliness of the reconciliation system;

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

(D) Erroneous posting of issuances to household accounts;

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

(F) Capability to monitor systematic abuses at POS terminals such as debits for a complete allotment, excessive manual issuances, and multiple manual

transactions at the same time. Such monitoring may be accomplished through the use of exception reporting;

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

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

(vi) The State agency shall incorporate the contingency plan approved by FNS prior to pilot implementation and subsequently updated as part of the Expansion Implementation Plan into the Security Program.

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

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

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

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

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

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

(F) Identifies procedures for problem resolution;

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

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

(A) Have available manual backup procedures;

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

(C) Have available deposit information in a format readily comparable to

information maintained in the store; and

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

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

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

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

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

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

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

(B) The statement of nondiscrimination which reads as follows: "This is an equal opportunity program. If you believe that you have been the victim of discrimination in your efforts to receive food stamp benefits because of your race, color, national origin, age,

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sex, disability, religious belief, or political beliefs, write immediately to the Administrator, Food and Nutrition Service, 3101 Park Center Drive, Alexandria, Virginia 22302." In lieu of printing the required information on the EBT card, the State agency shall provide each household a card jacket or sleeve containing the nondiscrimination statement.

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

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

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

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

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

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

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

(9) *Minimum Transaction Set.* At a minimum, the State agency shall ensure that the EBT system, including third party processors and retailers driving their own terminals, is capable of providing for authorizing or rejecting purchases, refunds or customer credits, voids or cancellations, key entered transactions, balance inquiries and settlement or close-out transactions.

(i) *Concentrator Bank Responsibilities.* The concentrator bank shall be a Federally insured financial institution or other entity acceptable to the Federal Reserve which has the capability to take retailer credits and/or debits, obtained from the EBT system operator, and transmit them to the ACH network operated by the Federal Reserve or through another process for crediting

retailers approved by FNS. Transmittal shall be by tape or on-line in a format suitable for the Automated Clearinghouse (ACH) or as approved by FNS.

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

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

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

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

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

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

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

(j) *Reconciliation and Management Reporting.* 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

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computer against benefits on the Issuance Authorization File;

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

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

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

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

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

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

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

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

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

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

(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 up to the level of the current coupon issuance costs, as prescribed in paragraph (c)(3) of this section.

(2) The State agency may request enhanced funding for the development of EBT systems which are components of complete automated data processing systems to be developed in accordance with the provisions of 7 CFR 277.18(g). To be eligible for enhanced funding, the EBT system must be fully integrated with the complete ADP system.

(3) Enhanced funding for coupon issuance activities that a State agency incurs on Indian Reservations and the enhanced funding provided in accordance with this paragraph for development of an EBT system shall be accommodated within the issuance cap.

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

(5) 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.

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

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

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

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

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

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

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

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

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

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

(ii) Re-presentation of manual vouchers shall not be permitted when the EBT card, magnetic stripe, PIN pad,

card reader, or POS terminal fails and telephone lines are operational. Manual transactions shall not be utilized to extend credit to a household via re-presentation when the household's account balance is insufficient to cover the planned purchase.

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

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

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

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

(m) *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 a Food Stamp EBT system shall be conducted in accordance with the provisions set forth under §277.18(f) of this chapter.

[57 FR 11249, Apr. 1, 1992; 57 FR 44791, Sept. 29, 1992; Amdt. 378, 64 FR 48938, Sept. 9, 1999]

PART 275—PERFORMANCE REPORTING SYSTEM

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

Subpart A—Administration

§275.1 General scope and purpose.

(a) Under the Food Stamp Act, each State agency is responsible for the administration of the Food Stamp Program in accordance with the Act, Regulations, and the State agency's plan of operation. To fulfill the requirements of the Act, each State agency shall have a system for monitoring and improving its administration of the program. The State agency is also responsible for reporting on its administration to FNS. These reports shall identify program deficiencies and the specific administrative action proposed to meet the program requirements established by the Secretary. If it is determined, however, that a State has failed without good cause to meet any of the program requirements established by the Secretary, or has failed to carry out the approved State plan of operation, the Department shall suspend and/or disallow from the State such funds as are determined to be appropriate in accordance with part 276 of this chapter.

(b)(1) The Food Stamp Act authorizes the Secretary to pay each State agency an amount equal to 50 percent of all administrative costs involved in each State agency's operation of the program. The Act further authorizes the