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Office of Inspector General



**Controls over Outsourcing of
Food and Nutrition Service's
Supplemental Nutrition Assistance Program
Electronic Benefits Transfer Call Centers**

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SUBJECT: Controls over Outsourcing of Food and Nutrition Service's Supplemental
Nutrition Assistance Program Electronic Benefits Transfer Call Centers

Summary

This report presents the results of our audit of the Food and Nutrition Service's (FNS) controls over the use of funds provided by the American Recovery and Reinvestment Act of 2009 (Recovery Act).¹ Specifically, we examined the States that elected to use supplemental Recovery Act State Administrative Expense (SAE) funding to support the operation of its Supplemental Nutrition Assistance Program's (SNAP) Electronic Benefits Transfer (EBT) call centers. The Recovery Act increased the amount of SNAP benefits by 13.6 percent and provided \$290.5 million in funding for SAEs to handle the anticipated increase in SNAP caseloads for fiscal years (FY) 2009 and 2010.

We initiated this audit in response to public concerns that several States with high unemployment were outsourcing SNAP administrative services to foreign call centers and that funds provided by the Recovery Act were potentially being used to operate foreign EBT call centers.² The audit objective was to determine whether Recovery Act funds for FNS SNAP EBT were used to

¹ Public Law 111-5, dated February 17, 2009.

² Foreign EBT call centers are located outside the United States or its territories, whereas domestic EBT call centers are located within the United States or its territories.

support foreign EBT call centers and ascertain what, if any, actions should be taken by FNS to address this issue.

We found that the Recovery Act did not require, nor did FNS establish, controls to ensure that States using foreign call centers did not pay for such operations with Recovery Act funding. In addition:

- There were only five States that both used foreign call centers and received Recovery Act funds for EBT Issuance Costs (Issuance Costs include call center costs). (See exhibit A.)
- Recovery Act funding for EBT Issuance Costs for these five States is relatively small (about \$5.8 million, or 2 percent, of the \$290.5 million SAE funding provided by the Recovery Act). (See exhibit A.)
- The number of States using foreign call centers is decreasing, as States themselves have taken action to mitigate concerns about the use of foreign call centers.
- Changing to domestic call centers may result in costly adjustments to longstanding State EBT contracts.
- Recovery Act SAE funding expired at the end of FY 2010.

As a result, we are not making any recommendations. OIG provided the draft report to FNS for comment to ensure accuracy and clarity. We incorporated revisions to this report based on the June 16, 2011, technical comments provided by FNS. No further action or response is required. We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions.

Background

Authorized by the Food and Nutrition Act of 2008,³ SNAP serves as the primary source of nutrition assistance for over 40 million low-income people. It enables participants to improve their diets by increasing food purchasing power by using benefits that are redeemed via EBT at authorized retail grocery stores across the country.

SNAP EBT allows a recipient to authorize transfer of his or her Government (SNAP) benefits from a Federal account to a retailer account to pay for products received. SNAP EBT has been implemented in all States since June 2004. The objective of EBT implementation was to create an alternative to issuing food stamp coupons.

The Department of Agriculture administers SNAP at the Federal level through FNS. State agencies administer the program at State and local levels and are responsible for various program-related activities, including determinations of eligibility and allotments, and distribution of benefits. Generally, States award contracts to private sector companies, referred to as prime processors, to develop and operate the States' EBT systems. These companies are usually financial institutions or other organizations that already handle debit and credit card systems or electronic funds transfer activities. Each State remains financially liable to FNS for the actions of the State's EBT processor and any subcontracted third party processor(s) involved in EBT.⁴

³ As amended through Public Law 110-246, dated October 1, 2008.

⁴ Title 7, *Code of Federal Regulations* (CFR), part 274.1(b)(1), dated January 1, 2009.

The following table presents the regular Federal appropriations for SNAP benefits and SAEs (in billions of dollars⁵) for FYs 2009 and 2010:⁶

FY	Appropriations for Benefits	Appropriations for SAEs
2009	\$45.6	\$2.8
2010	\$49.6	\$3.0
Total	\$95.2	\$5.8

The Recovery Act, enacted on February 17, 2009, made supplemental appropriations for job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, and State and local fiscal stabilization. Provisions for a temporary increase in benefits under SNAP were included in the Recovery Act, as well as funding to assist with costs associated with carrying out the increase in benefits.

The following table presents SNAP funding (in billions of dollars) provided by the Recovery Act for FYs 2009 and 2010:

FY	Recovery Act Funding for Increase in Benefits	Recovery Act Funding for SAEs Related to the Increase in Benefits
2009	\$4.8	\$0.1445
2010	\$10.1	\$0.1460
Total	\$14.9	\$0.2905

Our review focused on the \$0.2905 billion (\$290.5 million) provided by the Recovery Act for SAEs in 2009 and 2010, specifically, those portions that supported EBT call centers.

The Office of Inspector General's (OIG) role, as mandated by the Recovery Act, was to oversee agency activities and to ensure that funds were expended in a manner that minimized risk of improper use.

Objectives

To determine whether Recovery Act funds for FNS SNAP EBT are being used to support foreign EBT call centers and ascertain what, if any, actions should be taken by FNS to address this issue.

⁵ These amounts are exclusive of matched employment and training activities.

⁶ Figures in tables are rounded.

Details

The outsourcing debate is not rooted in the signing of the Recovery Act of 2009; concerns over outsourcing have been ongoing for years. As early as 2004, a bill was introduced into Congress with the purpose of encouraging U.S. companies to keep American jobs at home, despite the production of services at lower costs in other countries.⁷ In April 2009, amid a widely recognized economic recession, a news article reported that several States with high unemployment were outsourcing food stamp (now SNAP) services. Specifically, a SNAP recipient in Florida had raised concerns when her call to inquire about program benefits was answered by a foreign call center. We initiated this audit in response to public concerns that funds provided by the Recovery Act were being used to operate foreign EBT call centers.

We found, based on discussions with FNS officials, that there is no Federal law or regulation prohibiting States from contracting with EBT processors that utilize foreign call centers. Regulations⁸ provide that the State agencies are responsible for the implementation, coordination, and management of EBT systems; each State is responsible for contracting for EBT systems in a manner best suited for the State's needs. Moreover, many current EBT contracts that use foreign call centers are longstanding and were put in place during the initial implementation of EBT (2004), long before the Recovery Act was enacted in 2009.

While FNS does not require the use of domestic call centers, we found some State EBT contracts include provisions to ensure the use of domestic call centers. Some States have enacted legislation or issued executive orders to (1) prevent or curtail contracted work related to welfare programs from being performed outside the United States, (2) provide in-State preference on equal bids involving State contracts, or (3) require a vendor submitting a bid to disclose where services will be performed under the contract. We found that a number of States have changed their call center operations from foreign to domestic since full implementation of EBT in June 2004.

In July 2004, "Good Jobs First," a national policy resource center for promoting government accountability, released a report⁹ on offshore outsourcing of State government work, focusing on information technology and food stamp (now SNAP) call centers. (The report was prepared for WashTech—the Washington Alliance of Technology Workers—a union for high-tech employees.) According to the report, interviews with EBT officials in every State and the District of Columbia revealed that 42 States and the District of Columbia were using foreign call centers.

Our review disclosed that, since the release of the "Good Jobs First" report, use of foreign call centers has greatly declined. For example, in 2004 at least six States incorporated in their EBT contracts and Requests for Proposal (RFP)¹⁰ provisions against foreign outsourcing, and/or in

⁷ This bill, S. 2531 (Senate bill), did not become law.

⁸ 7 CFR 274.12(b)(1) and (2), dated January 1, 2009.

⁹ "Your Tax Dollars At Work...Offshore: How Foreign Outsourcing Firms Are Capturing State Government Contracts."

¹⁰ A Request for Proposal is the solicitation form generally used by the State during the acquisition of EBT systems.

favor of domestic operations. We found that only 15 States used foreign call centers in 2009, and that number was further reduced to only 13 in 2010.¹¹ (See exhibit A.)

With no Federal law or regulation prohibiting the use of foreign call centers, FNS was not required, nor did it create, controls to ensure that the \$290.5 million in SNAP administrative funding, provided by the Recovery Act, would be used to support only domestic call centers. However, the amount of Recovery Act funding that is used to support foreign call centers is not significant in comparison to the total amount of funding provided by the Recovery Act for SAEs.

States do not specifically report call center costs to FNS. These costs are included together with all other EBT operational costs and EBT equipment costs and accounted for as “EBT Issuance Costs.”¹²

The following table presents OIG’s analysis of States that use foreign call centers and the amount of Recovery Act funding for SAEs that was used by these States for EBT Issuance Costs, in FYs 2009 and 2010:

FY	Number of States with Foreign Call Centers	Number of States with Foreign Call Centers that Received Recovery Act EBT Issuance Costs	Amount of EBT Issuance Costs (in millions)	Recovery Act Funding for SAEs (in millions)	EBT Issuance Costs as a Percentage of Recovery Act Funding for SAEs
2009	15	5	\$1.8	\$144.5	1.2%
2010	13	3	\$4.0 ¹³	\$146.0	2.7%
Total			\$5.8	\$290.5	2.0%

The \$5.8 million in EBT Issuance Costs includes payments for foreign call centers, along with other EBT Issuance Costs. However we could not determine the actual portion of EBT Issuance Costs used to pay for foreign call centers.

Because of the limited number of States (five) that used foreign call centers and also received Recovery Act funding for EBT Issuance Costs; the decreased use of foreign call centers by States; the potential for increased costs associated with changing longstanding EBT contracts to require the use of domestic call centers; the expiration of Recovery Act SAE funding after FY 2010; and the fact there is no FNS requirement for States to use domestic call centers, we are not making any recommendations.

¹¹ Florida and Hawaii changed their call centers to domestic operations for 2010.

¹² Other EBT Issuance Costs may include training, direct deposit for cash benefits, cash-only withdrawals, disaster recovery, payphone surcharges, vault card inventory shipments, and point of sale equipment, as well as automated FedEx and manual expedited overnight delivery charges.

¹³ \$2.7 million of the \$4.0 million in EBT Issuance Costs for 2010 is attributed to Louisiana, which transitioned in 2010 from one processor and its EBT system to another.

Scope and Methodology

To accomplish the audit objective, we interviewed State agency officials and FNS Headquarters and regional office officials and reviewed documentation provided by them.

To determine the amount of Recovery Act funds for FYs 2009 and 2010 that may have been used by States to pay for foreign call centers, we:

- verified with FNS Headquarters that Recovery Act payments for call centers would be included in EBT Issuance Costs reported by the States to FNS on Forms SF-269, “Financial Status Reports,”
- identified on Forms SF-269 EBT Issuance Costs for each State that received Recovery Act funding for SAEs,
- obtained a list of States from FNS that used foreign call centers and Recovery Act funding for EBT Issuance Costs, and
- interviewed and/or obtained documentation from State EBT Directors to verify the status of the States’ call center(s) (i.e., foreign or domestic).¹⁴

We performed our audit from May 2010 through February 2011. We conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

¹⁴ We did not receive responses from Connecticut, Massachusetts, and Rhode Island. However, each of these States is part of the Northeast Coalition of States which used the same RFP, requiring call centers to be located domestically. Additionally, we did not receive a response from Puerto Rico, but verified through its EBT processor’s website that the call centers are located in Puerto Rico.

Exhibit A - Table of Recovery Act-Funded EBT Issuance Costs and EBT Contract Expiration Dates for States that Used Foreign Call Centers for FY 2009 and/or 2010

State	Call Center Status FYs 2009 and 2010	Combined Recovery Act Funding for FYs 2009 and 2010 EBT Issuance Costs	Contract Expiration Date
California	Foreign	\$0	March 2015 ^a
Colorado	Foreign	\$0	June 2012
District of Columbia	Foreign	\$0	September 2011
Florida	Foreign (2009) Domestic (2010)	\$0	June 2008 ^b
Georgia	Foreign	\$0	June 2004 ^c
Guam	Foreign	\$0	September 2017 ^d
Hawaii	Foreign (2009) Domestic (2010)	^e \$86,000	June 2017 ^d
Idaho	Foreign	\$657,099	June 2010 ^d
Louisiana	Foreign	\$3,766,393	June 2016
Nebraska	Foreign	\$0	February 2013 ^d
Nevada	Foreign	\$1,217,393	June 2018
Tennessee	Foreign	\$0	February 2012
Virgin Islands	Foreign	\$0	January 2012 ^d
Washington	Foreign	\$0	April 2014
Wyoming	Foreign	\$89,105	March 2011
Total		\$5,815,990	

^a With three 1-year options to extend.

^b With five 1-year options to extend.

^c With eight 1-year options to extend.

^d With two 1-year options to extend.

^e Comprised of \$86,000 for 2009 and \$0 for 2010.