United States Government Accountability Office

GAO

Report to the Ranking Member, Committee on Oversight and Government Reform, House of Representatives

June 2008

ELECTRONIC PAYMENTS

Many Programs Electronically Disburse Federal Benefits, and More Outreach Could Increase Use

Accountability * Integrity * Reliability

GAO-08-645

Highlights

Highlights of GAO-08-645, a report to the Ranking Member, Committee on Oversight and Government Reform, House of Representatives

Why GAO Did This Study

Traditionally, federal agencies made benefit payments by paper check, but they faced increased pressure to reduce costs and increase the convenience, security, and timeliness of payment delivery. In response to a 1996 congressional mandate, the U.S. Department of Agriculture's Food Stamp Program implemented Electronic Benefit Transfer (EBT) to distribute food stamps. According to agency evaluations, EBT has reduced program costs and fraud and offered recipients a quick, secure way to receive payment. These results spurred interest in using electronic payment methods for other benefit programs. GAO was asked to report on (1) the extent to which federal benefit programs are using electronic payments, and factors agencies consider for their use and (2) options for increasing the use of electronic payments, particularly the Department of the Treasury's (Treasury) actions to that end. GAO surveyed federal benefit programs identified from two federal databases; reviewed documents, reports, and studies on electronic payments; and interviewed federal and state agency, industry, and consumer representatives.

What GAO Recommends

GAO recommends that Treasury consider conducting outreach to federal agencies regularly, particularly those that may not use or fully use electronic payments. Treasury did not comment on the recommendation, but generally agreed with the report's findings.

To view the full product, including the scope and methodology, click on GAO-08-645. For more information, contact Yvonne Jones at (202) 512-8678 or jonesy@gao.gov.

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Many Programs Electronically Disburse Federal Benefits, and More Outreach Could Increase Use

What GAO Found

Most federal benefit programs GAO surveyed (34 of 42) reported using 1 or more electronic payment methods, and the majority of those programs also indicated that most of their recipients received their benefits electronically. Less than half (18 of 42) of the programs surveyed provided data that would allow GAO to determine the percentage of payments made electronically, in part because state agencies disburse payments for many programs. For the 5 largest, by dollar value, programs that provided data, about 54 to 100 percent of payments were made electronically (see figure below). Agencies consider various factors, including financial burden to recipients, program and recipient characteristics, program costs, and fraud and security risks, when making a decision to use an electronic payment method for the delivery of benefits.

Various options exist for agencies to increase electronic distribution of federal benefits, including (1) mandating that recipients receive benefits electronically, (2) making electronic payment the default option upon enrollment, (3) promoting electronic payments through public outreach, (4) piloting electronic distribution programs, and (5) using electronic payment cards in new ways. Treasury has introduced key initiatives in its efforts to support and increase the use of electronic payments, particularly programs for which Treasury disburses payments, such as Social Security benefits. However, Treasury does not disburse payments for all federal benefit programs. In 2006 and 2007, Treasury met with federal Chief Financial Officers (CFO) to discuss Treasury's cash management initiatives, such as increasing electronic payments. Treasury also discussed electronic payments with program staff from larger agencies for which Treasury disburses payments. However, Treasury has no plans to conduct these meetings regularly with CFO agencies and other smaller agencies. Treasury's role as the federal government's leader for payments and its experience with electronic payment methods suggest that it could provide valuable information and assistance to smaller agencies with less experience or expertise. Regularly scheduled outreach efforts to other agencies could provide opportunities for Treasury to increase the use of electronic payments.

Percentage of Electronic Payments for the Top 5, by Dollar Value, Programs That Provided Data

Name of program	Total dollar value of benefit payments (FY 2006)	Percentage of payments made electronically (FY 2006)
Social Security Retirement Insurance	$418,056,535,776	87.9%
Social Security Disability Insurance	77,846,049,345	76.7
Supplemental Security Income	41,547,968,487	53.8
Food Stamp	30,187,346,987	100.0
Social Insurance for Railroad Workers	9,934,658,062	88.0

Source: GAO analysis of responses to a survey of federal benefit programs.

Contents

Abbreviations

ACH	automated clearinghouse
ATM	automated teller machine
BIA	Bureau of Indian Affairs
CFDA	Catalog of Federal Domestic Assistance
CFO	Chief Financial Officer
DCIA	Debt Collection Improvement Act of 1996
DHS	Department of Homeland Security
DOL	Department of Labor
EBT	Electronic Benefit Transfer
EFT	Electronic Funds Transfer
EPC	Electronic Payment Cards
ETA	Electronic Transfer Account
FAADS	Federal Assistance Award Data System
FMS	Financial Management Service
HHS	Department of Health and Human Services
NACHA	National Automated Clearinghouse Association
PCI	Payment Card Industry
PIN	personal identification number
POS	point-of-sale
RRB	Railroad Retirement Board
SSA	Social Security Administration
SSI	Supplemental Security Income
TAA	Trade Adjustment Assistance
TANF	Temporary Assistance for Needy Families
TRA	Trade Readjustment Allowance
UPC	Universal Product Code
USDA	U.S. Department of Agriculture
VA	Department of Veterans Affairs
WIC	Supplemental Nutrition Program for Women, Infants, and Children

GAO
Accountability * Integrity * Reliability
United States Government Accountability Office
Washington, DC 20548

June 23, 2008

The Honorable Tom Davis
Ranking Member
Committee on Oversight and Government Reform
House of Representatives

Dear Mr. Davis:

Federal, state, and local governments are responsible for issuing a large proportion of the recurring federal benefit payments made to individuals today. Traditionally, these payments have been made by paper check, but government agencies have faced increased pressure to reduce costs while simultaneously increasing the convenience, security, and timeliness of payment delivery. The high cost of issuing paper checks already has resulted in an increase in the use of Electronic Funds Transfer (EFT) to deliver payments. EFT is any transfer of funds that is initiated through an electronic terminal, telephone, computer, or magnetic tape for the purpose of ordering, instructing, or authorizing a financial institution to debit or credit an account. Direct deposit, the primary example of EFT, provides a low-cost way to disburse payments. However, direct deposit does not work for consumers who do not have a bank account or do not sign up for direct deposit. To reach these recipients, states and the federal government have created new financial products.

Electronic Benefit Transfer (EBT) was devised in the 1980s to meet the needs of the U.S. Department of Agriculture's (USDA) Food Stamp Program. Its initial purpose was to transfer federal benefits electronically to eligible recipients under certain entitlement and grant programs. During the early 1990s, several states successfully developed and implemented EBT projects. Also, a 1996 statute mandated that food stamp programs nationwide use EBT as their benefit distribution method no later than October 1, 2002, except for state agencies facing unusual barriers to implementing an EBT system.[1] According to agency evaluations, EBT has helped to significantly reduce fraud and has offered benefit recipients a quick, secure way to receive payments, while allowing agencies to reduce program costs. These positive results—and the potential for duplicating

[1] 7 U.S.C. § 2016(i)(1)(A).

them in other benefit programs—have led some Members of Congress, agencies, and industry representatives to advocate for the increased use of electronic payment methods. In addition, the Department of the Treasury (Treasury), as the lead agency for federal government payments, is striving toward an all-electronic government for the disbursement and collection of payments.

In response to your request, this report discusses the extent to which federal programs are using electronic payments to disburse benefits and the feasibility of expanding the use of electronic payments to other federal benefit programs. Specifically, we (1) describe the extent to which federal programs are using electronic payment methods to disburse benefits; (2) identify factors that agencies consider when implementing or using electronic payments; and (3) identify potential options for increasing the use of electronic payments, particularly Treasury's actions to increase electronic payments.

To respond to these objectives, we reviewed agency documents, reports, and studies on electronic payments. We interviewed Treasury officials and collected written and testimonial information about their experiences in implementing and using electronic payment methods to distribute benefits, as well as current initiatives aimed at increasing the use of electronic payments. We conducted a site visit to Harrisburg, Pennsylvania, to obtain preliminary information on the state's use of electronic payments because Pennsylvania was the first state to pilot EBT for the Food Stamp Program in October 1984. We interviewed officials at the following six federal agencies responsible for overseeing or administering federal benefit programs to obtain information on their use of electronic payments to deliver benefits: USDA, Department of Labor (DOL), Department of Veterans Affairs (VA), Social Security Administration (SSA), Department of the Interior's Bureau of Indian Affairs (BIA), and Department of Health and Human Services (HHS). We also attended conferences sponsored by NACHA—the Electronic Payments Association's[2] Electronic Benefits and Services Council and the Electronic Funds Transfer Association to observe presentations from a variety of federal and state agencies, electronic payment providers, and private-sector consultants on issues related to implementing and using electronic payment methods to disburse benefits. To determine the extent to which federal programs use electronic payments, we identified 455

[2]This association is also known as the National Automated Clearinghouse Association.

federal benefit programs using 2 federal databases, developed and applied criteria to determine whether the programs should be included in our review, and ultimately selected 45 federal programs that represented a variety of the types of federal benefit programs that exist. We conducted a Web-based survey of the 45 programs that we identified as meeting our criteria for further review, but later excluded 3 programs upon receiving their survey responses. We collected data on program characteristics, the extent of electronic payment use, and other methods of payment. To identify factors to consider when implementing electronic payments and options for increasing the use of electronic payments, we met with private-sector consultants, such as Booz-Allen Hamilton; Maximus; and Burger, Carroll, and Associates, Inc., who had assisted agencies in developing or implementing electronic payment solutions, and with three major electronic payment providers—J.P. Morgan Chase, Affiliated Computer Services, and EFD (eFunds Corporation). In addition, we obtained the views of consumer advocacy groups such as the Consumer Federation of America, Consumers Union, and the National Consumer Law Center. We also interviewed representatives from groups representing the electronic payments industry, such as the Electronic Funds Transfer Association and NACHA—the Electronic Payments Association. Using the results of our survey to identify responses that were important for describing the characteristics of each program, we purposively selected the following 5 programs from our survey that represented a variety of characteristics to use as case illustrations to examine additional information related to their experiences with using electronic payments: Supplemental Nutrition Program for Women, Infants, and Children (WIC); Indian Social Services Welfare Assistance; Supplemental Security Income (SSI); Unemployment Insurance; and Trade Adjustment Assistance. Four of the 5 programs that we selected for case illustrations were federal programs whose benefits were administered by individual state or tribal agencies. Therefore, we also interviewed state and tribal agencies in Arizona, California, Georgia, Michigan, Minnesota, Ohio, Oklahoma, Texas, and Utah to obtain more information on factors that they considered when deciding to implement electronic payments and options for increasing the use of electronic payments. In selecting state agencies and tribes, we considered various factors, such as whether they were using or planning to use electronic payments or had conducted pilots to test the feasibility of using electronic payments, and recommendations from agency officials.

We conducted our work from April 2007 through June 2008 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Appendix I provides a more detailed description of our objectives, scope, and methodology. Appendix II provides a list of the programs we surveyed and data relating to their use of electronic payments.

Results in Brief

Most federal benefit programs we surveyed (34 of 42) indicated that they used 1 or more electronic payment methods, but data limitations did not allow us to determine the extent to which most of these agencies did so. Direct deposit was the most common method of payment; however, programs also used EBT and Electronic Payment Cards (EPC), which are debit or stored-value cards. The majority of the 34 programs that used electronic payments also indicated that the majority of the recipients in their programs received benefits electronically. However, less than half (18 of 42) of the programs we surveyed provided data that would allow us to determine the percentage of payments that were made electronically, in part because states are responsible for disbursing payments for many federal benefit programs and are not required to provide specific payment data to the federal agency overseeing the program. For those 18 programs that were able to provide data, the percentage of payments that were made electronically ranged from about 5 to 100 percent; however, for the 5 largest, by dollar value, of these 18 programs, about 54 to 100 percent of the payments were made electronically. Also, 8 of the 18 programs paid 100 percent of their benefit payments electronically, but 6 of these 8 programs were education assistance programs, in which payments typically were made to an institution, not to an individual. Finally, 13 of the 42 programs we surveyed provided data that allowed us to determine the percentage of payments made by paper check. Nine of these 13 programs distributed less than half of the total dollar value of benefit payments by paper check, and the remaining 4 programs distributed 100 percent of their benefit payments by paper check.

Agencies consider various factors, including financial burden to recipients, program and recipient characteristics, program costs, and fraud and security risks, when making a decision to use an electronic payment method for the delivery of benefits. While federal and state agency officials, industry representatives, and others with whom we spoke widely agree on the advantages of electronic payments for the recipients, such as secure and timely payments, agencies also consider perceived disadvantages when implementing electronic payments. For example, some agency officials and consumer groups told us that transaction fees and minimum balance requirements imposed by financial institutions may make using an electronic method costly for recipients who often have low incomes or low account balances. The characteristics of the recipients also are important to consider when implementing electronic payments, according to agency officials. Disabled or elderly recipients may not have bank accounts or may find it difficult to manage bank accounts or to use EPCs. In addition, concerns about the garnishment of federal benefits and the applicability of certain consumer protections require consideration by agencies seeking to implement electronic payments. Furthermore, agency officials and industry representatives stated that certain benefit programs have characteristics that might make implementing or expanding electronic payments more complicated. For example, instead of a cash benefit, the WIC program specifies a food "prescription" that provides specific nutritional food items to recipients and can only be used at authorized locations. Therefore, using electronic payments in the WIC program could offer more technological challenges (e.g., in designing or updating information systems) than using such payments in a cash benefit program. While agency officials cited cost reduction and efficiency as key reasons for implementing electronic payments, up-front costs such as new systems and software can be a deciding factor in whether to implement electronic payments, especially for small programs or programs with limited funding. Finally, agencies consider the risks associated with different types of electronic payment and disbursement methods. While electronic payments have reduced some of the risks associated with paper processes, such as unauthorized use, loss, and theft, electronic payments are still susceptible to these risks, although to a lesser extent. However, using electronic payments creates an electronic record of each transaction, which allows agencies to monitor transactions to help identify fraud more easily. Although these factors may present some challenges to implementing electronic payments for some federal benefit programs, agencies may be able to address many of these challenges using various options.

Options to increase the use of electronic payment of benefits include adopting new statutory requirements, conducting public outreach, and adapting payment cards for more uses. In addition, Treasury has introduced initiatives to encourage electronic payments. Although the Debt Collection Improvement Act (DCIA) of 1996 requires federal payments to be made electronically, Treasury stated that the act does not include federally funded, state-disbursed payments.[3] Furthermore, Treasury's regulations include a waiver policy that allows individuals to elect to receive a paper check if they believe that an electronic payment would impose a hardship or if they do not have a bank account.[4] The most-sweeping option identified by industry representatives and some agency officials, and one that would guarantee an increase in use, would involve mandating electronic payment of benefits for recipients. Although a mandate would present challenges, they could be overcome. As a less-sweeping alternative, some industry representatives suggested making electronic payments the default payment option for recipients upon enrollment to receive benefits. This option also would require recipients to receive benefits electronically, but it would give them the choice of opting out of electronic payments. Another approach that several agencies have taken is to conduct consumer outreach to educate recipients on the benefits of electronic payments. For example, Treasury, in partnership with SSA, has reached out to recipients at preretirement seminars and through printed publications to encourage them to use direct deposit. In addition, Treasury has used radio, television, and outdoor advertising—such as signage at bus stops—to reach individuals without bank accounts, or "the unbanked." Furthermore, agencies with whom we met have implemented pilot programs to test the receptiveness of recipients or other stakeholders, such as retailers, to electronic methods. At the same time, these agencies have also used pilot programs to identify issues that could make electronic payments more feasible. States are also exploring other types of payment cards and innovative electronic payment methods. For example some states are considering using a co-branded card displaying a company logo, such as Visa or MasterCard, as an option to deliver benefits, because it would allow the recipient to use the card at more locations. Finally, Treasury has a leadership role in encouraging electronic solutions for all types of federal payments. Specifically, to increase the use of electronic payments to distribute federal benefit payments, Treasury continues to market the benefits of direct deposit through its "Go Direct" marketing and education campaign and has introduced new initiatives, such as the Direct Express debit card, which is geared toward Social Security and SSI recipients who do not have bank accounts. Treasury is also working closely with SSA to encourage new enrollees, through a newly designed application process, to receive their

[3] Pub. L. No. 104-134, title III, § 31001(x)(1), 110 Stat. 1321-376 (Apr. 26, 1996), *codified at* 31 U.S.C. § 3332.

[4] 31 C.F.R. § 208.4(a).

benefits electronically. Treasury's Fiscal Years 2003-2008 Strategic Plan also discusses a cross-cutting objective and strategy for increasing electronic payments, such as including federal program agencies as key partners in achieving this goal.[5] As part of implementing this strategy, in 2006 and 2007, Treasury met with the Chief Financial Officers (CFO) of the largest federal agencies to discuss issues related to financial management, including electronic payments. Treasury has also discussed electronic payments with program staff at these larger federal agencies. However, Treasury has no plans to conduct this outreach to CFO agencies and other smaller agencies on a regular basis. More outreach could provide opportunities for Treasury to further encourage the use of electronic payments and could help agencies develop solutions to address the challenges or constraints they face in this area.

This report contains one recommendation to the Secretary of the Treasury. To help Treasury achieve its goals of increasing the use of electronic payments and moving to an all-electronic government, we are recommending that the Secretary direct Treasury's Commissioner of the Financial Management Service to consider developing a process for conducting outreach to federal agencies on a more regular basis, with the goal of identifying opportunities for increasing the use of electronic payments. For example, Treasury could meet with agency CFOs or their designees and with staff from smaller agencies, on a semiannual or annual basis, to discuss challenges that agencies face in moving to electronic payments and identify actions that Treasury and agencies could take to facilitate the transition to electronic payments. We provided a draft of this report to the Secretaries of Treasury and USDA for review and comment. Officials from Treasury's Financial Management Service (FMS) noted that Treasury generally agreed with the report. Treasury did not comment on the recommendation, but stated that it would address the recommendation in its statement of actions to congressional committees not later than 60 days after the date of this report. Officials from USDA's Food and Nutrition Service stated that they agreed with the overall message of the report. Treasury and USDA also provided technical comments, which we incorporated in the report as appropriate.

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[5]U.S. Department of the Treasury, Financial Management Service, *Strategic Plan for Fiscal Years 2003-2008* (Sept. 30, 2003).

Background

Efficient payment systems are important for the smooth functioning of the large and complex U.S. economy. As the availability and use of technology evolves, the payment systems at all government levels must adapt to the changing needs and expectations of individuals, businesses, and governments. The U.S. Treasury disburses the great majority of federal government payments, including benefit payments. Increasingly, in recent years, Treasury has made those disbursements electronically. Treasury and other federal agencies using electronic payments have a variety of mechanisms with which to make benefit payments, including direct deposit, EBT, and other EPCs.

Trends in the Use of Paper Checks and Electronic Payments in the United States

In the United States, many payments traditionally made with paper instruments—checks and cash—are now being made electronically, with debit or credit cards or via the automated clearinghouse (ACH).[6] Until recently, paper checks accounted for the majority of noncash payments. A 2002 Federal Reserve Board of Governors (Federal Reserve) study concluded that the number of checks paid annually in the United States likely began to decline during the mid-1990s.[7] A 2005 Federal Reserve study stated that the average annual rate of decline in the number of checks paid is estimated to have been 3.3 percent between 1995 and 2000 and 4.3 percent between 2000 and 2003.[8]

The cumulative effect of the growth in electronic payments has only recently become large enough to substantially affect the number of checks paid. By 2003, led by rapid growth in debit card payments, the number of electronic payments exceeded the number of check payments for the first time in U.S. history. As of 2006, electronic payments comprised over two

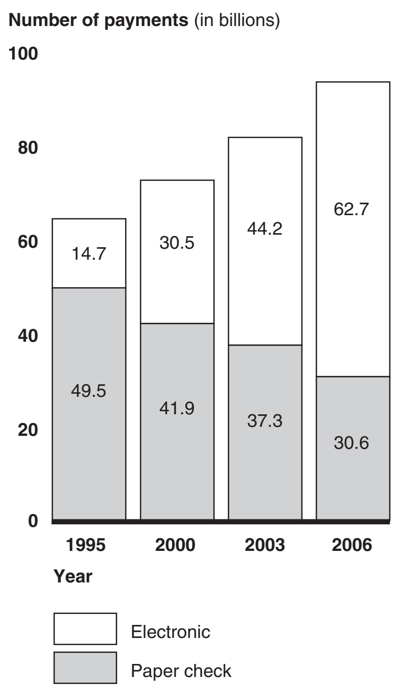
[6]The ACH network is a funds transfer system governed by a specific set of rules that provides for the interbank clearing of electronic entries for participating institutions. Both the Federal Reserve System and the private sector provide ACH services. Our 1997 report on the U.S. payment system provides additional information on the ACH network. GAO, *Payments, Clearance, and Settlement: A Guide to the Systems, Risks, and Issues*, GAO/GGD-97-73 (Washington, D.C.: June 20, 1997).

[7]Geoffrey R. Gerdes and Jack K. Walton II, "The Use of Checks and Other Noncash Payment Instruments in the United States," *Federal Reserve Bulletin*, vol. 88 (August 2002), 360–374.

[8]Geoffrey R. Gerdes, Jack K. Walton II, May X. Liu, and Darrel W. Parke, "Trends in the Use of Payment Instruments in the United States," *Federal Reserve Bulletin* (Spring 2005), 180-201.

thirds of all noncash payments by number, but less than half by value.[9] Specifically, the number of electronic payments was 62.7 billion in 2006, with a value of $34.1 trillion, compared with 30.6 billion checks paid in 2006, with a value of $41.7 trillion. Some of the increase in the use of electronic payments was due to changes in the financial behavior of consumers and businesses, particularly their payment instrument choice. For example, electronic payments have been used more frequently in transactions where checks or cash may have been used in the past. Many other factors, such as growth in economic activity and population, may have contributed to the increase in electronic payments. Figure 1 shows the annual number of electronic and paper check payments in the United States for selected years—that is, 1995, 2000, 2003, and 2006.

Figure 1: Annual Number of Electronic and Paper Check Payments in the United States for Selected Years (1995, 2000, 2003, and 2006)



Source: Federal Reserve.

[9]Noncash payments include payments by check, debit card, credit card, ACH, and EBT.

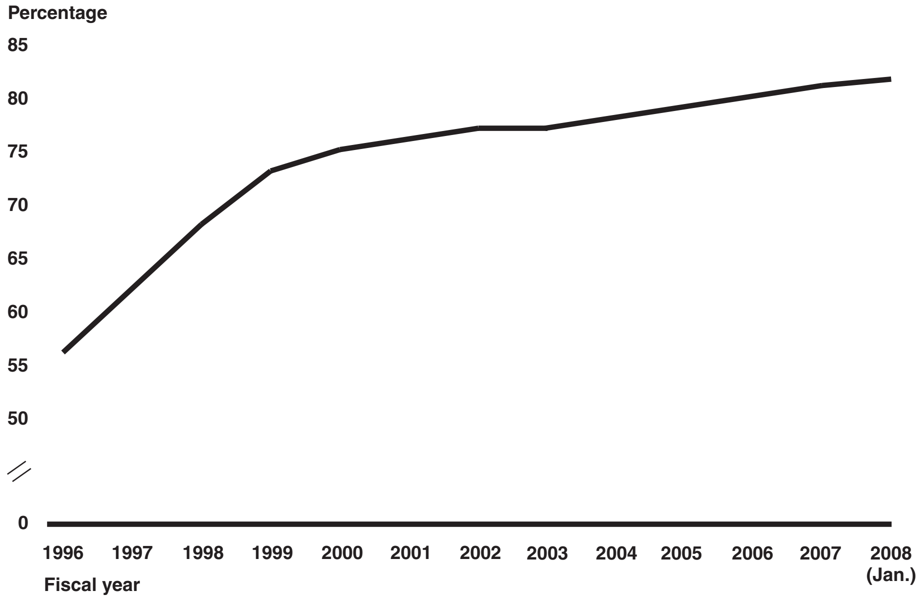
The large number of electronic payments generally indicates the growing efficiency of the payment system, according to the 2005 Federal Reserve study. The processing of paper payments typically requires extensive physical handling. Automation has created opportunities for depository institutions and other payment processors not only to introduce new payment instruments, but also to reduce their costs in processing paper and electronic payments. Future innovations are expected to continue to help decrease costs and add value and functionality.

Federal Benefit Payments Made Electronically and by Paper Check

Treasury's FMS is the primary disburser of payments to individuals and businesses on behalf of federal agencies. Annually, FMS disburses almost 1 billion payments, with an associated dollar value of more than $1.6 trillion. Programs administered by SSA account for the largest percentage of Treasury-disbursed benefit payments. The majority of SSA's payments fall under the Old-Age and Survivors Insurance and the Disability Insurance programs. These programs combined are commonly referred to as Social Security. In addition, SSA administers the SSI program. Besides administering payments for SSA, Treasury makes retirement and compensation payments on behalf of (1) DOL for victims of black lung disease, (2) the Office of Personnel Management for retirement benefits for federal employees, (3) the Railroad Retirement Board (RRB) for retired railroad workers, and (4) VA for benefits paid to veterans or their survivors. As of fiscal year 2008 (through January), about 88 percent of all Treasury-disbursed payments are benefit payments made on behalf of these agencies.

Treasury's use of electronic payments to disburse these benefit payments has increased significantly over the past decade. As shown in figure 2, in fiscal year 1996 Treasury disbursed 56 percent of the total volume of benefit payments electronically compared with 81 percent in fiscal year 2007. As of fiscal year 2008 (through January), 81.6 percent of these benefits were paid electronically. Treasury experienced the greatest gains in the use of electronic payments between fiscal years 1996 and 1999, where there were increases of about 5 to 6 percent per year. Beginning in fiscal year 2000, electronic payment volumes generally increased about 1 percent per year.

Figure 2: Percentage of Treasury-Disbursed Benefits That Were Made Electronically, Fiscal Years 1996 through January 2008



Source: Department of the Treasury, Financial Management Service.

Methods That Federal Agencies Use to Disburse Benefits Electronically

Federal agencies use several electronic methods, some dating to the 1970s, to distribute recurring benefits and payments to individuals. As originally implemented, direct deposit is the electronic transfer of a benefit or other type of payment into a checking, share draft, savings, or prepaid card account. However, this option could only be used for delivering benefits when a benefit recipient who has a bank account chooses to authorize direct deposit. Technological advances in the way EFT works now allow for direct deposit to payroll and other types of prepaid debit cards that are not tied to an individual account in the name of the cardholder, but rather draw funds from a pooled account that may hold money belonging to thousands of cardholders. Federal programs, such as Social Security, SSI, Railroad Retirement, Veterans Benefits, and Civil Service Retirement, have used direct deposit since as early as 1976.

The DCIA instructed Treasury to ensure that individuals have access to an account at a financial institution, that such an account have the same consumer protections provided to other account holders, and that the account be provided at a reasonable cost.[10] In a variation of direct deposit, Treasury designed the Electronic Transfer Account (ETA) in July 1999 to ensure that individuals who receive a federal benefit, wage, salary, or retirement payment have access to a federally insured account.[11] According to Treasury, at the time of our review, there were currently about 90,000 active ETA accounts.

In addition to methods that link and distribute benefits to a bank or other account, the federal government uses a variety of disbursement options that employ cards. For example, the primary delivery vehicles for food stamp payments are EBT cards. Food stamp recipients use a debit-type card that allows them to access their food stamp benefits at point-of-sale (POS) terminals in USDA-authorized retail grocers. The EBT cards are industry-standard magnetic stripe debit cards that are protected by using an industry-standard personal identification number (PIN). These cards are not tied to a consumer asset account, and generally the account structures and processing requirements differ from other payment cards. EBT cards can be used to deliver benefits to banked and unbanked recipients and also can be used to deliver multiple benefits using a single card. EBT works well when the benefit form is noncash and when access to benefits are limited to certain locations, like food retailers.

Other types of cards can be used for multiple functions or at a wide variety of retail locations. For example, EPCs can be employed to deliver benefit payments to banked and unbanked recipients. One EPC can be used to deliver multiple payments to the cardholder—for example, enabling the cardholder to receive both state and federal payments. Depending on the structure and enrollment criteria of programs, EPCs also can be used to receive direct deposit of payroll or other nongovernment payments. Some EPCs are debit cards tied to a cardholder-owned account, while others are prepaid or stored-value cards tied to an aggregated account that is not cardholder owned. The stored-value card allows a prepaid balance of funds to be recorded electronically on a card. Both types of EPCs can support government payment needs. The debit cards use magnetic stripe technology and can be processed online or offline. An online transaction

[10]Pub. L. No. 104-134, title III, § 31001(x)(1), 110 Stat. 1321-376 (Apr. 26, 1996) *codified at* 31 U.S.C. § 3332.

[11]A federally insured financial institution is defined as any financial institution whose deposits are insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration. 31 C.F.R. § 208.2(i).

results in the immediate electronic transfer of funds and requires the use of a PIN to authorize the transaction. With an offline transaction, a hold is placed against the buyer's account for the amount of the transaction, but the settlement is not made immediately. Offline debit transactions can be signature-based—that is, they require the customer to sign a receipt—or PIN-secured. Embedded computer chips can turn stored-value cards into "smart cards" that store cardholder information. Smart cards are considered offline systems because they do not have a real-time connection to a host processing system that authorizes the transaction. Transaction authorization and PIN verification occur in communications between the chip and a smart card "reader" at the POS. Furthermore, EPCs can be "branded" or "nonbranded." Branded cards have a MasterCard, American Express, Discover, or Visa logo and allow cardholders to conduct signature-based transactions anywhere that those brands are accepted as well as at ATM and POS machines. Nonbranded cards allow PIN-based transactions only through POS or ATM networks.

Federal Government Benefit Programs

Federal benefit programs generally are any such programs administered or funded by the federal government, or by any agent or state on behalf of the federal government, that provide cash or in-kind assistance in the form of payments, grants, loans, or loan guarantees to individuals. Government assistance programs can be critically important to the well-being of individuals and their families. A variety of benefit programs exist for veterans, seniors, students, children, people with disabilities, dependents, disaster victims, farmers, caregivers, and others. As discussed more fully in appendix I, for this review, we identified and analyzed data for 42 federal benefit programs that provided recurring payments to individuals. These programs are under the purview of 11 federal agencies, including SSA, DOL, USDA, and HHS, among others. The types of federal programs that we identified included food and nutrition assistance programs, training and education assistance programs, and income support programs.

Most Programs We Surveyed Used Electronic Methods to Distribute Benefits, but Data on the Extent of Use Are Limited

Our survey of 42 federal benefit programs showed that the majority of these programs were using electronic payments to deliver benefits to recipients. In some cases, the programs used more than 1 type of electronic payment. However, 6 programs indicated that they did not use electronic payments, and that they disbursed benefit payments by paper check. Eighteen of the 42 programs we surveyed provided data we needed to compute the percentage of payments made electronically. Of these 18 programs, the percentage of payments made electronically ranged from about 5 to 100 percent. Some programs were unable to provide us with data because they are federal benefit programs administered by states. Thus, data are collected by individual states and are not available at the federal level.

Most Programs We Surveyed Used Electronic Payment Methods to Distribute Benefits, but a Small Number of Programs Did Not

Of the 42 programs we surveyed, 34 programs (81 percent) indicated that they used electronic payment methods to distribute benefits to recipients; 6 programs indicated they did not use electronic payments; and 2 programs indicated that they were unsure whether they used electronic payments. Of the 34 programs that used electronic payments, 20 programs were administered at the federal level—as opposed to the state agency level—and about half of the 34 programs paid cash benefits to recipients on a monthly basis. In addition, 16 of the 34 programs using electronic payments were needs-based programs, which require recipients to meet some qualifications on the basis of factors such as income, familial status, or household size.

As shown in more detail in appendix II, 31 of the 34 programs that used electronic payments provided data on the number of recipients in the program, and 30 of the 34 programs provided data on the total dollar value of benefits made to recipients in the program in fiscal year 2006. More specifically, 16 of the 34 programs that used electronic payments indicated there were fewer than 1 million recipients in the program in fiscal year 2006. Two programs—Food Stamp and Social Security Retirement Insurance—reported having 26.7 million and 33.9 million recipients, respectively, in fiscal year 2006. The remaining programs that used electronic payments reported having between 1 million and 9 million recipients.[12] In addition, 7 of the 34 programs that used electronic payments indicated that the total dollar value of payments made to

[12]Three programs that used electronic payments did not provide data on the number of recipients in the program in fiscal year 2006.

recipients in fiscal year was less than $20 million. Fifteen programs reported disbursing $100 million to $10 billion in benefit payments in fiscal year 2006, and the remaining programs that used electronic payments disbursed more than $10 billion in benefit payments during the same year. The largest program we surveyed, in terms of dollar value of benefit payments, was the Social Security Retirement Insurance program, which distributed $418 billion in benefit payments in fiscal year 2006.[13]

The programs used a variety of electronic payment options for delivering the benefits. For example, 25 programs distributed benefits through direct deposit; 9 programs used EBT; and 8 programs used another type of EPC, such as the debit card. However, some programs used more than 1 type of electronic method. The Low Income Home Energy Assistance Program, for example, indicated that it used 3 electronic payment options—direct deposit, EBT card, and debit card.

Most of the 34 programs that made electronic payments indicated that they did so for a majority of their recipients. About 59 percent of the programs that responded to the question (20 of 34) indicated that all, almost all, or most of their recipients received payments through electronic methods. Twenty-three programs (68 percent of those who responded to the question) indicated that about half or more of their recipients received payments electronically.

Although most of the programs we surveyed used an electronic payment method, the following 6 programs indicated that they did not use an electronic payment method to distribute benefits, and that they delivered benefits using paper checks:

- Women, Infants, and Children Farmers' Market Nutrition Program
- Survivors and Dependents Educational Assistance
- Post-Vietnam Era Veterans' Educational Assistance
- Indian Employment Assistance
- Indian Job Placement United Sioux Tribe Development Corporation

[13]Four programs that used electronic payments did not provide data on the total dollar value of benefits disbursed in fiscal year 2006.

- Indian Social Services Welfare Assistance Program

These 6 programs each had fewer than 3 million recipients in fiscal year 2006 and expended less than $500 million in benefit payments that year. [14] Four programs had fewer than 100,000 recipients in fiscal year 2006. The Women, Infants, and Children Farmers' Market Nutrition Program had about 2.5 million recipients. In addition, 4 programs expended less than $100 million in fiscal year 2006, but the Survivors and Dependents Educational Assistance program expended about $495 million in benefit payments. All 6 programs provided cash benefits to recipients; however, the frequency of payments made to the recipients varied. For example, 3 programs paid benefits monthly, 2 programs paid benefits annually, and 1 program distributed benefits on a quarterly basis. See appendix II for selected information on the 42 programs we surveyed.

Limited Data on the Percentage of Payments Made Electronically Were Available

Eighteen of the 42 programs we surveyed were able to provide specific data that would allow us to calculate the percentage of the total dollar value of payments that were made electronically (see fig. 3). Of these 18 programs, the percentage of payments made electronically ranged from about 5 to 100 percent. One reason for some programs' inability to provide data was that they are federal benefit programs administered by states. Thus, data were collected by individual states and were not available at the federal level. Other reasons for the programs not being able to provide the data included their not being able to disaggregate payment data or collect payment data by type of payment.

Eight of these 18 programs reported having made 100 percent of their payments electronically (see fig. 3). However, 6 of these programs are education assistance programs, which may pay benefits directly to an educational institution, rather than to an individual. For example, the Nurse Anesthetist Traineeships, Scholars and Fellows, and Minority Faculty Fellowship programs indicated that they distribute their benefits directly to universities or training providers by electronic means. The remaining 2 programs that reported making 100 percent of their payments electronically were USDA's Nutrition Assistance for Puerto Rico and Food Stamp programs.

[14] Of these 6 programs, the Indian Social Services Welfare Assistance program did not provide data on the number of recipients in the program in fiscal year 2006 and the Indian Job Placement United Sioux Tribe Development Corporation did not provide data on the total dollar value of benefit payments made to program recipients that year.

Figure 3: Total Dollar Value and Percentage of Payments That Were Made Electronically for 18 Programs We Surveyed

Agency	Total dollar value of benefit payments (FY 2006)	Name of program	Percentage of payments made electronically (FY 2006)
Education	$1,305,357,374	Leveraging Educational Assistance Partnership	4.9%
SSA	41,547,968,487	Supplemental Security Income	53.8
DOL	625,000,000	Coal Mine Workers' Compensation	60.0
Justice	882,015	Public Safety Officers' Educational Assistance	67.7
SSA	77,846,049,345	Social Security Disability Insurance	76.7
SSA	418,056,535,776	Social Security Retirement Insurance	87.9
RRB	9,934,658,062	Social Insurance for Railroad Workers	88.0
VA	1,995,531,647	All-Volunteer Force Educational Assistance	91.6
USDA	351,601,585	Milk Income Loss Contract Program	95.9
SSA	15,247,594	Special Benefits for Certain World War II Veterans	98.9
USDA	30,187,346,987	Food Stamp	100.0
HHS	1,250,000	Nurse Anesthetist Traineeships	100.0
Education	240,000,000	Academic Competitiveness Grants	100.0
HHS	1,067,968	Disadvantaged Health Professions Faculty Loan Repayment	100.0
USDA	1,412,694,137	Nutrition Assistance for Puerto Rico	100.0
DHS	10,200,000	Scholars and Fellows	100.0
Transportation	722,516	State Maritime Schools	100.0
HHS	108,786	Minority Faculty Fellowship Program	100.0

Source: GAO analysis of responses to a survey of federal benefit programs.

While most programs we surveyed used electronic means, many programs indicated that they used paper checks to distribute benefits. Thirteen of the 42 programs provided sufficient data that would allow us to calculate the percentage of the total dollar value of payments paid by paper check (see fig. 4). For those 13 programs, the percentage of payments made by paper check ranged from about 1 to 100 percent. Of these 13 programs, 9 distributed less than half of the total dollar value of benefit payments by paper check. The remaining 4 programs distributed 100 percent of their benefit payments by paper check.

Figure 4: Total Dollar Value and Percentage of Payments That Were Made by Paper Check for 13 Programs We Surveyed

Agency	Total dollar value of benefit payments (FY 2006)	Name of program	Percentage of payments made by paper check (FY 2006)
SSA	$15,247,594	Special Benefits for Certain World War II Veterans	1.1%
USDA	351,601,585	Milk Income Loss Contract Program	4.1
VA	1,995,531,647	All-Volunteer Force Educational Assistance	8.4
RRB	9,934,658,062	Social Insurance for Railroad Workers	12.0
SSA	418,056,535,776	Social Security Retirement Insurance	12.1
SSA	77,846,049,345	Social Security Disability Insurance	23.3
Justice	882,015	Public Safety Officers' Educational Assistance	31.9
DOL	625,000,000	Coal Mine Workers' Compensation	40.0
SSA	41,547,968,487	Supplemental Security Income	46.2
USDA	18,400,000	WIC Farmers' Market Nutrition Program	100.0
VA	494,909,355	Survivors and Dependents Educational Assistance	100.0
VA	1,034,991	Post-Vietnam Era Veterans' Educational Assistance	100.0
Interior	80,000,000	Indian Social Services Welfare Assistance	100.0

Source: GAO analysis of responses to a survey of federal benefit programs.

Agencies Consider Various Factors When Implementing or Encouraging the Use of Electronic Payments

Federal and state agencies, industry representatives, and others widely agree on the advantages of electronic payments, including timely payments for recipients and reduced costs for agencies. However, agencies also consider other factors, such as certain perceived disadvantages, program characteristics, costs and efficiencies, and security risks, when determining whether and how to implement electronic payments or when encouraging the increased use and acceptance of electronic payments among recipients and the public.

Many Recognize the Advantages of Electronic Payments, but Agencies Also Consider Perceived Disadvantages When Implementing Electronic Payments

According to agency officials, industry representatives, and consumer groups, the use of electronic methods to make benefit payments has advantages for the recipient. For example, according to agency officials, electronic payments are secure and reliable because they use the ACH network to deliver payment. According to Treasury, ACH provides the recipient with a secure, dependable, and efficient way to receive payments. Recipients can also receive their payments more quickly. Benefit payments are deposited on a specific date, and recipients no longer have to wait in line to pick up a check or wait for it to arrive in the mail. Benefits paid electronically are also more easily replaced if lost or stolen. Treasury officials explained that if a check were stolen, it might take as long as several months to replace a claimant's check; in contrast, if an electronic payment file were lost or misdirected, replacement funds could be provided electronically on the same or the next day. Also, recipients can purchase products as needed without forfeiting unused benefits. For example, the vast majority of benefits under USDA's WIC program are issued using paper checks or vouchers, but certain states are piloting or have implemented WIC EBT, which is an electronic method for distributing WIC benefits. When the WIC program uses paper vouchers, recipients have to purchase all food items listed on their voucher at one time. With WIC EBT, however, recipients can buy as much or as little of their authorized food prescription at any time during the authorized benefit period, and the EBT system automatically manages expiration of any unused benefits. According to a consumer group representative, electronic payments offer other advantages, including convenience and the ability to withdraw funds in small increments to prevent the need for recipients to carry around large sums of cash. Finally, electronic payment methods can provide intangible benefits. According to agency and industry representatives, EBT cards reduced the stigma associated with using food stamp coupons or vouchers. Representatives from one industry group stated that recipients involved in focus groups stated that using the EBT card gave them a sense of pride. Furthermore, an evaluation of the EBT system in one state indicated that substantial majorities of recipients, retailers, and financial institutions prefer the EBT system to the check or coupon system.

However, certain bank and automated teller machine (ATM) fees associated with electronic payments may increase the cost of using electronic payments, especially for recipients with precarious financial circumstances or low account balances. Minimum balance requirements for bank accounts may pose a hindrance for recipients, according to agency officials, because financial institutions may impose fees when the account balances fall below the minimum requirement. Also, according to agency officials and a consumer group representative, ATM withdrawal fees can increase the costs of using an electronic payment, especially when out-of-network ATMs are used. Financial institutions are permitted to impose fees for overdrawn accounts, which may affect recipients who may not be financially savvy or who have precarious financial circumstances, according to agency officials and a consumer group representative. Furthermore, recipients residing in rural or remote areas often lack access to financial services, making the delivery of benefits to a bank account or on an EPC more challenging. For example, agency officials stated that many businesses in rural areas, particularly those on

Indian reservations, do not accept debit cards. In addition, agency officials explained that remote Indian reservations and Alaska Native communities may lack the infrastructure (e.g., telephone lines and the Internet) needed to implement electronic payments, and not all reservations have access to banks and ATMs.

Certain recipients may face specific challenges in obtaining electronic payments or using cards to access benefits. For example, some SSI and VA recipients have mental or physical disabilities that could hinder their ability to manage a bank account for direct deposit of their benefits. Also, because many SSI recipients have an individual appointed to manage their benefit payments due to the nature of their disabilities, the use of electronic payments can pose challenges relating to titling of accounts. Moreover, dexterity and visual challenges that elderly recipients or recipients with disabilities face also can make it difficult to use an EPC. In addition to issues related to physical and mental disabilities, according to VA officials, some older veterans from the World War II and Vietnam War eras simply distrust the government and would prefer to receive a paper check.

Certain banking practices and varying levels of consumer protection may hinder the acceptance of electronic payments by some consumer group representatives and recipients. Although some federal benefits are generally exempt from garnishment, a consumer group representative with whom we spoke was concerned that banks did not distinguish exempted funds when processing a garnishment order. Certain federal benefit payments—such as Social Security, SSI, and veterans' benefits, which are generally exempt under federal law from garnishment and the claims of judgment creditors[15]—often constitute an important part of, and sometimes all of, a recipient's income. As a result, when financial institutions receive garnishment orders and place freezes on accounts containing exempt federal benefit funds pending resolution of the garnishment process, the recipients of these funds can face significant hardship. At the same time, financial institutions are required by state law to comply with garnishment orders, which may necessitate placing a freeze on an account that contains federal benefit payments. According to the consumer group representative, payments drawn on an account before the recipient becomes aware that the account was frozen are returned to the bank unpaid, and the bank assesses fees for those returned items,

[15]*See* 42 U.S.C. § 407(a); 42 U.S.C. § 1383(d)(1); 38 U.S.C. § 5301; and 45 U.S.C. § 231m(a).

which are also taken from the recipient's account. The representative stated that this practice causes a hardship for low-income, elderly, and disabled Social Security recipients. Also according to this representative and an agency official, some recipients make a deliberate decision to receive a paper check, rather than to sign up for direct deposit, so that their benefits will not be garnished.

Treasury officials acknowledged concerns related to the garnishment of benefits, and stated that Treasury is working with banking regulators to determine how best to segregate funds in bank accounts to address such issues. On September 28, 2007, the federal financial institution regulatory agencies issued proposed guidance to encourage financial institutions to have policies and procedures in place regarding the handling of garnishment orders.[16] The agencies developed the proposed guidance to address concerns associated with the garnishment of exempt federal benefit payments, and to encourage financial institutions to minimize the hardships encountered by federal benefit recipients while remaining in compliance with applicable law. Among the practices included in the proposed guidance are that a financial institution should

- promptly determine if an account contains only exempt federal benefit funds,
- promptly notify a consumer when receiving a garnishment order and placing a freeze on the consumer's account,
- minimize the cost to the consumer when the account containing exempt funds is frozen by refraining from imposing overdraft or insufficient funds fees or by refunding such fees when the freeze is lifted, and
- offer consumers segregated accounts containing only federal benefit funds without commingling other funds.

Treasury officials stated that they recognized the concerns of many benefit recipients that their federal benefit payments may be garnished in violation of federal law. Treasury has a new payment option that may help

[16] *See* "Proposed Guidance on Garnishment of Exempt Federal Benefit Funds," 72 Fed. Reg. 55273 (Sept. 28, 2007). The Office of the Controller of the Currency; Board of Governors of the Federal Reserve System; Federal Deposit Insurance Corporation; Office of Thrift Supervision; and the National Credit Union Administration developed the proposed guidance.

to address this issue—the Direct Express card, which is more fully discussed later in this report. According to Treasury, this card has no monthly fee and many free services, and, because only federal benefit payments may be deposited on the card, there should not be any confusion concerning whether an individual's money is generally protected from garnishment in accordance with federal law.

Consumer groups have also raised concerns about the varying levels of consumer protection offered to recipients receiving benefits through different electronic methods. According to consumer group representatives with whom we spoke, consumer protections are not the same for recipients using EPCs. Regulation E, the implementing rule of the Electronic Fund Transfer Act,[17] establishes protections for individuals engaging in electronic fund transfers and applies to any electronic fund transfer that authorizes a financial institution to debit or credit a consumer's account.[18] However, Regulation E does not apply to needs-tested benefits in a program established under state or local law or administered by a state or local agency.[19]

According to USDA officials, EBT cards that are used to deliver food stamp and other cash benefits administered by the states, such as Temporary Assistance for Needy Families (TANF), are exempt from Regulation E requirements. Recipients using these cards, for example, may not be compensated for benefits that might have been used by an unauthorized individual, according to consumer group representatives. Although such EBT cards are not covered by Regulation E, an industry representative told us that some benefit programs have requirements for dispute resolution. For example, USDA has dispute resolution requirements for food stamp EBT transactions that were perceived by the official to be in the best interest of the beneficiary.

[17]Pub. L. No. 90-321, title IX, as added Pub. L. No. 95-630, title XX, § 2001, 92 Stat. 3728 (Nov. 10, 1978).

[18]12 C.F.R. § 205.3(a).

[19]12 C.F.R. § 205.15(a). This provision of Regulation E implements sections 891 and 907 of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, which generally exempts state and local government needs-tested EBT programs from the disclosures, protections, responsibilities, and remedies established by the Electronic Fund Transfer Act. *See* Pub. L. No. 104-193, title VIII, § 891, title IX, § 907, 110 Stat. 2346, 2350 (Aug. 22, 1996), *codified at* 15 U.S.C. § 1693b(d)(2)(B).

Noncash or Service Delivery Programs May Require More Planning and Consideration When Implementing Electronic Payment Methods

Certain programs have characteristics that make implementing or expanding electronic payments more complicated. According to agencies and industry representatives, programs that distribute cash benefits can be easily converted to electronic payments. However, noncash or service delivery programs can present more complex planning and technology challenges. For example, WIC benefits are not cash, but a food "prescription," that provides certain nutritional items tailored to the needs of the individual recipient that only can be obtained at authorized retailers. Challenges to the electronic distribution of WIC benefits include keeping the database of universal product codes (UPC) updated, because the codes are needed to identify eligible food items. USDA is currently working to implement, and some states have volunteered to pilot, a national UPC database that would allow agencies and food manufacturers to enter product information into the database. A workgroup of state agencies, food retailers, and food manufacturers was convened to assist in identifying and resolving critical issues associated with the database.

Another challenge to distributing WIC benefits electronically is processing the different types of WIC EBT transactions. For example, some states use an "online" EBT card with the magnetic stripe, and other states use the "offline" EBT card with the circuit chip. USDA officials stated that USDA is working with retailers to update their existing cash register systems so they can process both types of EBT cards used by state agencies. Furthermore, according to USDA officials, not having a common set of standards for transaction processing to govern WIC EBT transactions poses a challenge. Therefore, USDA works with retailers, industry representatives, and state agencies in an effort to develop standards that will lay the groundwork for nationwide WIC EBT. According to USDA officials, USDA has worked with Accredited Standards Committee X9, Inc., which is an American National Standards Institute accredited standards developing organization, to define common processes for WIC EBT transactions processed using both online and offline EBT cards and is working with certain states to develop standard practices for WIC EBT transactions, such as setting standards for the type of information that should be on a WIC EBT receipt.

The Trade Adjustment Assistance (TAA) program administered by DOL, which provides assistance to individuals adversely affected by increased imports to help them obtain suitable employment, is composed of an income-assistance component and service-delivery components. The income-assistance component of the benefit, called Trade Readjustment Allowance (TRA), is provided to individuals in the form of a monetary, or cash, payment. One of the service-delivery components of the benefit provides assistance for education or training in the form of vouchers. Officials in one state have explored ways to implement an electronic solution for training vouchers issued through the TAA program. Officials we interviewed in other states stated they had successfully implemented or planned to implement an electronic payment option for the TRA cash benefit. For example, almost all TRA benefits in Minnesota are disbursed using a debit card or direct deposit, and state officials in Georgia stated that they have successfully delivered TRA benefits through direct deposit since 1999. State officials we interviewed in California stated that they were considering issuing TRA benefits using a debit card.

Payments for programs, such as unemployment insurance and Social Security, that do not restrict how or where funds are used can be made through many types of electronic methods. Treasury officials stated that one method—EBT—is a better option for programs with restrictions such as the Food Stamp Program, which only can be redeemed for eligible food items at authorized locations. According to a paper published by NACHA—The Electronic Payments Association, EBT is generally most effective as a payment solution when the transfer of value involves requirements specific to program policy or unique recipient needs that differentiate it from a simple payment product. [20] One industry representative with whom we met stated that if a benefit program has rules restricting how the benefits are accessed and used, then it needs an EBT solution. If the benefits are unrestricted, then other payment cards work well. Another industry representative also stated that if a benefit payment is strictly cash, then EBT is not the best option; rather, EPCs are better for benefits that include cash payments.

Along with the type of benefit, agencies also consider how to meet the needs of various stakeholders when deciding to implement an electronic payment solution. For example, USDA officials stated that they had to consider the impact of WIC EBT on grocers and retailers to develop a system that would meet the needs of all users. Agency officials in one state told us that they conducted focus groups with local health clinics, grocers, WIC recipients, and the advocacy community to obtain input from all stakeholders prior to implementing WIC EBT. Stakeholder reluctance, on the other hand, can inhibit federal programs from implementing electronic payments or prolong the development of an electronic payment

[20] NACHA—The Electronic Payments Association, *Electronic Disbursement Options* (November 2003).

mechanism. For example, an industry representative we interviewed explained that one state opposed the interoperability of EBT among states because it did not get the additional revenue from sales taxes when its EBT customers purchased food items from a bordering state with no sales tax.[21]

Up-front and Operating Costs Can Be Deciding Factors When Implementing Electronic Payment Systems

Typically, it costs less to issue an electronic payment than to issue a paper check. Treasury estimated that in fiscal year 2007, a check payment cost the federal government $0.979 and an electronic payment cost $0.099. According to Treasury, the government could have potentially realized an annualized cost savings in fiscal year 2007 of more than $189 million for all check payments that could have been paid electronically. State agencies have also cited cost reduction and efficiency as key reasons for implementing electronic payments. For example, electronic payments eliminate check ordering, storage, printing, and postage costs for the agency. The use of electronic payments also reduces paperwork and other administrative processes for the agency.

According to some state agency officials and industry representatives, cost savings and efficiency are only fully realized when 100 percent of payments are disbursed electronically. For example, an industry representative stated that the benefits of electronic payments are realized when paper checks are eliminated; that is, when there is no need for any type of infrastructure to distribute and process checks. Another industry representative with whom we spoke also stated that, in the long run, as fewer and fewer paper checks are printed, the cost per check will continue to increase because there will be fewer economies of scale. According to this representative, true efficiencies would be realized only when checks are no longer used. Officials in one state agency stated that providing recipients with benefits by paper check was not an option because the agency would need two parallel payment systems to accomplish one task, which would not be cost-effective. In response to these officials' and representatives' statements, Treasury stated that it maintains a check payment system in addition to its electronic payment options. One of the reasons that Treasury maintains its check payment system is to make payments to recipients without bank accounts, or unbanked recipients. According to Treasury, approximately 4 million recipients of Social

[21]In commenting on a draft of this report, USDA officials clarified that the interoperability of EBT is only permitted with the Food Stamp Program and not with WIC.

Security and SSI benefits are unbanked, and there has been no widely used national initiative to deliver electronic payments to unbanked recipients.[22] Furthermore, electronic payments to the unbanked are not mandated. According to Treasury, the savings from making an electronic payment compared with making a check payment will continue to be realized as check costs rise due to postage increases and other cost increases, such as paper and envelopes.

However, cost can be a deciding factor in implementing or choosing between electronic payment methods, according to agency officials. According to some agency officials with whom we spoke, implementing electronic payments for a benefit program is resource-driven. To accomplish electronic payments, agencies need funding and staff. According to BIA officials, some Indian reservations and Alaska Native communities would have difficulty bearing the costs associated with administering and maintaining an electronic system. An industry representative with whom we spoke explained that a primary cost of implementing electronic payments is associated with modifying software, planning meetings to discuss technical and operational aspects of the project, and training staff. Agency officials explained that before implementing electronic payments for a specific program, they have to consider the cost-effectiveness of doing so. For example, the current payment system for the Veterans Education Assistance Program is not capable of generating electronic payment files and would have to be redesigned to accommodate this feature. Fewer than 500 individuals are eligible to receive benefits under this program, and the number of eligible recipients is declining. Therefore, VA officials stated that the benefits they would realize from implementing electronic payments for this program would not outweigh the associated up-front costs. Other agency officials echoed VA's sentiment, stating that it is sensible for an issuer to use electronic payments to make large numbers of payments. However, if the issuer were making only a small number of payments, it might be more advantageous for it to issue paper checks.

[22]In 2002, we conducted an analysis of 1998 and 1999 data from the U.S. Census Bureau's Survey of Income and Program Participation to estimate the number of unbanked benefit recipients. The analysis suggested that the number of unbanked recipients, at that time, may have been over 11 million recipients, twice as high as Treasury's estimate. GAO, *Electronic Transfers: Use by Federal Payment Recipients Has Increased but Obstacles to Greater Participation Remain*, GAO-02-913 (Washington, D.C.: Sept. 12, 2002).

Small or low-volume programs were not the only ones that cited up-front costs as a challenge to the electronic delivery of benefits. The WIC program has had difficulty finding an electronic payment model that can provide effective services at a reasonable cost. For example, a WIC EBT system requires sophisticated POS devices that can identify and sort foods by category and amount. Also, according to a USDA official, the WIC program does not have much funding for development of new payment systems. For example, an early attempt at WIC EBT in the New England region was inhibited by, among other things, up-front costs borne by the WIC program. In another example, USDA terminated a WIC EBT pilot in Ohio due to the high costs associated with the monthly caseload. USDA officials explained that states have to be able to afford to operate the WIC EBT program within the administrative funding amount provided annually. According to USDA, if Ohio had expanded its WIC EBT pilot statewide, the costs would have been too expensive to operate, given the amount of funding the state received to administer the program. However, according to USDA officials, other states have successfully implemented WIC EBT within the cost restraints of the program. For example, Wyoming was the first state to implement WIC EBT statewide in January 2002, and New Mexico implemented WIC EBT statewide in December 2007.[23] Texas and Michigan are currently in the process of implementing WIC EBT statewide and expect to be fully implemented by early 2009. USDA also provides grants to states to assist with implementing WIC EBT. According to USDA officials, they give priority to states that are piloting WIC EBT. In 2007, USDA also offered preplanning awards for states that expressed an interest in using WIC EBT. States can use the preplanning grant funds to conduct feasibility studies for implementing WIC EBT, among other things.

According to USDA officials, a thorough cost evaluation is needed before a state agency can determine whether it can afford the ongoing cost of WIC EBT within its nutrition services and administration budget. USDA officials stated that many factors impact the affordability of WIC EBT. Because each state agency has discretion in how it operates its WIC program and designs its paper benefit delivery system, costs vary from state to state. This cost variation, in turn, makes it difficult to assess the affordability of EBT across all states. Each state agency must assess whether it can find savings by replacing current paper-based systems with

[23] In providing comments on a draft of this report, USDA officials clarified that Wyoming's WIC EBT costs were being supplemented with state funds.

electronic benefit delivery systems. For example, if a state agency's banking costs for processing paper food instruments is high, elimination of that cost may help offset the cost of EBT. Furthermore, states that can process EBT transactions using state resources, rather than hiring an EBT processor, may experience a lower EBT cost than state agencies that must pay ongoing processor fees.

Furthermore, although different electronic payment methods can appear to be equally cost-efficient and feasible to implement, they may present different operational costs. Generally, state agencies bear the cost of making payments using EBT because they pay a fixed cost to the EBT provider on the basis of the number of households that receive a benefit allotment in a given month. Payment providers can provide other payment cards at no cost to the state agency because they can gain revenue from the transaction in the form of interchange or other transaction fees (e.g., ATM withdrawal fees) paid by the retailer or the card user. An industry representative stated that, at one time, EBT was a good means for distributing cash payments to beneficiaries, but now the current trend is for programs that distribute cash benefits to provide beneficiaries with branded EPCs that function like debit cards. The administering agency must pay a monthly fee for each individual that uses an EBT card. However, with branded EPC cards, the administering agency may not be responsible for a monthly fee because the card issuer (e.g., VISA or MasterCard) collects a portion of the interchange fees.

Although Electronic Payments Have Security and Audit Features, Agencies Consider Fraud Risks and System Vulnerabilities When Using Electronic Payment Methods

Electronic payments can help reduce certain risks associated with a paper environment, including fraud and payment system vulnerabilities, but risks continue to exist in an electronic environment. In an effort to bolster information system security in the federal government, Congress passed the Federal Information Security Management Act of 2002,[24] which authorized and strengthened information security program, evaluation, and annual reporting requirements for federal agencies. Virtually all federal operations are supported by automated systems and electronic data, and agencies would find it difficult, if not impossible, to carry out their missions and account for their resources without these information assets. Therefore, it is important for agencies to safeguard their systems against risks such as loss or theft of resources (such as federal payments and collections), modification or destruction of data, and unauthorized

[24]Pub. L. No. 107-347, title III, 116 Stat. 2946 (Dec. 17, 2002).

uses of computer resources. According to agency officials and industry representatives, risks associated with an agency's payment system exist regardless of the method used to distribute benefits. As agencies implement electronic methods for distributing benefit payments, they should be aware of how susceptible to risk the payment system is and how risks may change in an electronic environment.

To assist agencies in providing adequate security, the federal government and the electronic payments industry have developed standards for EBT and other types of EPCs. Federal rules and regulations resulting from the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, which mandated nationwide EBT issuance of food stamp benefits, established technical standards for processing EBT transactions. Also, the Quest Operating Rules, which set forth the requirements for the distribution of government benefits under the Quest service mark, provide technical standards for the exchange and processing of EBT transactions.[25] Adherence to the Quest Operating Rules is optional, and states that have not adopted these rules operate under state-specific rules. According to USDA officials, whether or not states adopt the Quest Operating Rules, they must follow the standards and regulations established by various federal rules governing food stamp EBT transactions, which include compliance with applicable standards developed by the American National Standards Institute and the International Organization for Standardization. In addition, the Payment Card Industry (PCI) Data Security Standard, which major credit card companies developed to help organizations that process card payments prevent credit card fraud and various other security vulnerabilities and threats, provides a set of comprehensive requirements for enhancing payment account data security.[26] One industry representative stated that the increased use of payment cards has resulted in an increased awareness of the importance of maintaining high standards for security.

In addition to security standards, electronic payments provide a complete audit trail for agencies, which makes it easier to resolve payment errors

[25]The Quest Operating Rules were developed by NACHA—The Electronic Payments Association's Electronic Benefits and Services Council. The rules clearly define the agreements, roles, and responsibilities for the various parties involved in EBT transactions.

[26]The PCI Data Security Standard was developed by the PCI Security Standards Council—founded by American Express, Discover Financial Services, JCB International, MasterCard Worldwide, and Visa, Inc. to enhance, disseminate, and assist with the implementation of security standards for payment account security.

and detect fraud. According to USDA officials, EBT systems in particular can identify suspected patterns of fraud and create electronic audit trails that provide the agency with an opportunity to target its fraud investigations. USDA collects daily food stamp transaction data from each state and adds the data to its EBT transaction database for analysis. The system scans these data to flag transactions or sets of transactions that fit a certain set of criteria defined by established patterns of fraudulent activity. The system then generates a monthly "Watch List" of retailers with suspicious transaction patterns incongruent with a store's particular type of retail operation. Since adopting EBT for food stamps, USDA officials told us that fraud has been reduced dramatically. The national rate of food stamp trafficking declined from about 3.8 cents per dollar of benefits redeemed in 1993 to about 1 cent per dollar during the period of 2002 to 2005.

However, electronic payments are susceptible to unauthorized use, loss, or theft, just as paper payments, albeit to a lesser extent. According to Treasury officials, most problems are associated with paper checks. They stated that the level of risk with check payments will always be considerably higher than that of electronic payments, since checks are more susceptible to being lost, stolen, or forged. Electronic systems also are vulnerable to the use of benefits inconsistent with program policy or the erroneous or unauthorized establishment and funding of benefits. The use of EBT cards for food stamps has changed how food stamp benefits are trafficked, for example, by making it much more difficult for middlemen who previously collected and redeemed large amounts of paper coupons from recipients who were willing to sell them. Now, some food stamp recipients can stand outside of stores offering to loan their EBT cards to shoppers entering the store. In this situation, the shopper would purchase groceries using the card and return it with a discounted amount of cash to the recipient upon leaving the store. Recipients can also swipe their EBT card, but instead of buying groceries, they receive a discounted amount of cash and the retailer keeps the difference. In addition, for certain VA benefits, there is a risk that authorized individuals could fail to notify the agency that a recipient is deceased to continue to receive funds, and could continue to withdraw funds from the deceased recipient's bank account. According to an industry representative, recipients can sell an EPC and the PIN, and then report that the card had been lost or stolen to recoup lost benefits. However, according to federal and state agency officials and industry representatives, electronic payments are much less susceptible to fraud and risk than payments made by a paper instrument, such as a check or voucher.

Various Options Exist for Increasing the Use of Electronic Payments, Including Further Treasury Actions

Federal and state agencies could employ various options to increase the use of electronic payments to distribute federal benefit payments. These options include requiring recipients to receive their benefits electronically through mandates, making electronic payment the default option, promoting the benefits of electronic payment through public outreach, using pilot programs, and applying EPCs in a variety of ways. The most-sweeping option for increasing use of electronic payments would be mandating electronic payments without exception for recipients. Other, less-sweeping alternatives also could result in the increased use of electronic payments, and they range from making electronic payment a default option upon benefit enrollment to greater public education and outreach. These alternatives also include piloting electronic distribution programs and applying EPCs in new ways. Treasury, the primary disbursing agency for the federal government, has introduced several initiatives and conducted outreach to federal agencies in its efforts to support and increase the use of electronic payments. For example, Treasury has met with CFOs from the largest federal agencies to discuss Treasury's program initiatives, such as increasing electronic payments. However, Treasury has no plans to meet with CFO agencies and other smaller agencies on a regular basis.

Options to Increase Electronic Payments Could Include New Statutory Requirements or Widescale Adoption of Methods Some Agencies Already Use or Have Piloted

The most-sweeping option—and one that would guarantee an increase in the use of electronic payments—would involve mandating electronic payments without exceptions for recipients. Congress could mandate that all federal benefit payments be made electronically and not allow recipients to opt out of receiving payments electronically. Current federal law[27] covers some, but not all, federal benefit payments, since, as stated by Treasury, the law does not include federally funded, state-disbursed payments. In addition, Treasury's implementing regulations include a waiver policy, which permits individuals to determine for themselves whether direct deposit would cause them a hardship.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 is an example of a mandate with no exceptions for recipients. The act required that state agencies administering the Food Stamp Program use EBT exclusively by 2002 to distribute benefits, except for those states facing unusual barriers to implementing an EBT system. However, once

[27]Pub. L. No. 104-134, title III, § 31001(x)(1), 110 Stat. 1321-376 (Apr. 26, 1996) *codified at* 31 U.S.C. § 3332.

implemented, EBT became mandatory for the recipients. In a 2002 report, we did not identify any overall technical barriers impeding the statewide implementation of EBT systems.[28] Although, we did note that four jurisdictions, which collectively distributed about 1.7 percent of food stamp benefits nationally, delayed their implementation, in part, due to concerns over the higher cost of EBT over the old paper coupon system of food stamp benefit delivery.[29] According to USDA, as of June 2004, all 50 states, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands were operating EBT systems to issue food stamp benefits. Overall, several industry representatives agreed that EBT works well, and many prefer it because it is convenient and safer than checks or cash. Furthermore, some agency officials with whom we spoke said they require or will require electronic payments for certain state-administered federal benefits, such as unemployment insurance, without a statutory mandate. Specifically, agency officials said they notified recipients that direct deposit or a debit card were the only payment options available to them.

However, a mandate would present challenges, particularly for certain types of programs. For example, as we noted in the previous section of this report, challenges to using EBT for WIC involve the product-driven nature of the benefit. Although Congress has not mandated that USDA WIC benefits be distributed electronically, one industry representative and two agency officials indicated that states adopting EBT for the WIC program are by default making EBT distribution a requirement because that is the only way the benefits would be distributed. As of March 2008, only two states had implemented WIC EBT statewide. Depending on the type of technology being used, states may need to modify the existing electronic checkout system to process WIC transactions. According to one industry representative, an electronic WIC solution that uses a magnetic stripe can be used at any retailer equipped with an electronic cash register system. However, a solution that uses smart card technology, where a chip is embedded in the card, would require special equipment to read the chip.

[28]GAO, *Food Stamp Program: Implementation of Electronic Benefit Transfer (EBT) Systems*, GAO-02-332 (Washington, D.C.: Jan. 16, 2002).

[29]Subsequent to our 2002 report, USDA issued a report to Congress on food stamp EBT systems. According to the USDA report, the following seven state agencies had not completed implementation of a statewide EBT system by October 1, 2002: California, Delaware, Guam, Iowa, Maine, the Virgin Islands, and West Virginia. These jurisdictions received approval from USDA's Food and Nutrition Service to extend the EBT implementation deadline. See USDA, *Food Stamp Electronic Benefit Transfer Systems: A Report to Congress* (October 2003).

Furthermore, a representative of one consumer group noted that making electronic payments mandatory for recipients reduces the incentive for the industry to develop good EBT products and deliver quality services. Some consumer groups and industry representatives believe that recipients should be given a choice of how their benefit payments are distributed.

Rather than mandating electronic payments for recipients, agencies could choose a less-sweeping option that would make electronic payment the primary payment option on benefit applications. According to some industry representatives, enrollment in a benefits program should automatically default to electronic distribution. That is, individuals would receive benefits electronically, unless they specifically opted out and asked for a paper check. According to one industry group, this approach likely would foster broader acceptance and prove less intimidating to elderly recipients than an approach without the choice of opting out. In addition, a few industry representatives stated that recipients were less likely to opt out of receiving payments electronically because it would require some effort on their part. Some industry representatives indicated that exceptions could be retained for certain recipients with special challenges or needs—for example, those living in remote areas with limited banking access—should continue to receive paper checks. However, one industry representative contended that providing an opt out puts an agency in the position of having to support multiple distribution processes; that is, electronic as well as paper infrastructures. Furthermore, officials from one state told us that having parallel systems reduced cost savings. Officials from another state we interviewed said that offering paper checks as an option afforded recipients a ready opportunity to decline electronic payments.

In another approach, agencies could conduct consumer outreach to educate recipients of the benefits they could derive from receiving their payments electronically and, as a result, could increase their acceptance and use of electronic methods. Agency officials, some consumer groups, and industry representatives indicated that consumer outreach helps in promoting electronic payments. Along these lines, Treasury has conducted consumer outreach through a variety of means. For example, Treasury, in partnership with SSA, has communicated directly with Social Security recipients at preretirement seminars and indirectly through printed publications. More specifically, Treasury's key marketing strategy to inform check recipients about the advantages of direct deposit is to include mail inserts with their payments. Treasury also has tailored its communications strategies for different audiences. According to Treasury officials, the use of media such as radio, television, and outdoor advertising (e.g., signage at bus stops) is a better way to reach the unbanked, rather than the use of print media. In other examples, officials from one state agency told us they issued press releases about the benefits of electronic payments, sent mailings to recipients of certain benefit payments to encourage them to sign up for direct deposit or the debit card, and led discussions with labor union representatives and workers to obtain feedback. Two representatives from an industry group stated that they did not know how effective conducting consumer outreach would be because it was already well-known that electronic payment programs worked well. They also stated that mail inserts might not be effective because individuals tended to throw inserts away.

Piloting an electronic benefit program is yet another mechanism that agencies can use to increase electronic payments. Implementing pilot programs can demonstrate whether recipients or other stakeholders, such as retailers, are receptive to electronic payments and identify needed refinements or fixes that could make electronic payments more feasible. Several industry representatives and agency officials agreed that pilot programs give agencies a chance to test information and payment systems as well as an opportunity to gauge public perceptions and acceptance of methods and products that agencies use. However, one industry representative contended that pilots are not always necessary because the success of electronic payment solutions had already been proven.

Several states—including Michigan, New Mexico, Ohio, Texas, Washington, and Wyoming—have piloted or are in the process of piloting WIC EBT to test its feasibility before rolling out the program statewide. According to the results of the Washington State online WIC demonstration project and some agency officials and industry representatives, the pilots helped gain acceptance among retailers, recipients, and others. In a survey of participants in the Washington State pilot, 60 percent of the recipients said EBT was much better than paper checks. While the survey results for retail staff, including managers, were mixed, they agreed that they liked the concept of WIC EBT but believed that enhancements to the terminals were necessary. Washington's WIC commitment was only for 6 months, and, according to USDA, Kentucky will continue the project begun in Washington to further test the use of online technology for WIC EBT. An agency official from another state reported that the pilot program led to enhancements of its WIC EBT pilot system. Specifically, its vendor identified a glitch in the pilot system that placed a hold on recipients' benefit accounts while waiting for the EBT host to confirm a transaction. The delayed processing could have prevented the recipients from using the EBT cards for a few hours. The vendor modified the system so that this step was no longer required and recipients' accounts were no longer put on hold. In contrast, as we have previously discussed, Ohio's pilot was terminated in June 2005 because of the high cost to process EBT transactions. According to USDA officials, it would have been too expensive, at that time, for Ohio to operate the WIC EBT system statewide with the amount of administrative funding it received.

As EBT has become more widely accepted and the use of debit card technology has increased, state agencies administering federal benefits are exploring other types of EPCs to further increase the use of electronic payments. The recent increased use of debit card payments (e.g., according to the 2007 Federal Reserve Payments Study, the number of debit card payments increased from 15.6 billion in 2003 to 25.3 billion in 2006)[30] has led states to explore using variations of the EBT and the EPC cards to deliver benefit payments. For example, some states have explored using hybrid cards to deliver multiple state-administered benefits. Hybrid technology involves the issuance of a single card with a magnetic stripe and integrated chip technology that could allow recipients to access benefits as well as store cardholder information such as medical records. Specifically, benefits such as Food Stamp and TANF would be accessed by swiping the magnetic stripe, whereas medical information would be read from the integrated chip embedded in the card. According to an industry group, smart cards are generally more durable than magnetic stripe cards because the data on the stripe can easily be changed or can be erased by magnets. In addition, smart cards have the ability to carry a variety of applications, such as identification and payment data, on a single card.

While some states have used the EBT card to deliver multiple benefits, some have also been considering using a "co-branded" EBT card to deliver a number of benefits. The card—which, for example, can bear both the Quest service mark[31] and a logo, such as Visa or MasterCard—would allow benefit recipients to access restricted and unrestricted government-issued benefits using a single payment card. Specifically, the co-branded card would be accepted for unrestricted cash transactions at all locations that accept commercial payments such as Visa or MasterCard. With co-

[30]Federal Reserve System, *The 2007 Federal Reserve Payments Study: Noncash Payment Trends in the United States: 2003-2006* (Dec. 10, 2007).

[31]The Quest service mark is only used on cards in states that have adopted the Quest Operating Rules.

branding it is presumed that food stamp benefits, which are restricted, would be established as a separate account type from cash benefits, thereby ensuring that purchases could only be made at USDA authorized retail locations. Individual states have been considering co-branded cards for a variety of reasons. According to the Electronic Benefits and Services Council's white paper on the co-branding of EBT cards, some states have determined that their clients would like a single card.[32] For example, 87 percent of the clients surveyed in Texas would like to have a single card. States on the Gulf Coast have sought the best and easiest way to disburse funds after a disaster. Furthermore, other states seek to increase the number of locations where recipients could access benefits and payments. However, the concept of co-branding is relatively new, and state agencies and the electronic payment industry continue to explore many issues associated with co-branding. For example, according to the Electronic Benefits and Services Council's white paper, a cardholder could conduct a co-branded transaction by using either a PIN or a signature. Federal regulation limits food stamp transactions to PIN-based transactions, and merchants favor the use of PIN-based transactions because they are comparatively low cost for the retailer. However, a signature-based transaction generally allows the cardholder to access cash benefits at virtually any retail location that accepts commercial payments, such as Visa or MasterCard.

Treasury Has Introduced Three Initiatives and Conducted Limited Outreach with Federal Agencies to Support the Use of Electronic Payments

Treasury, as the primary disbursing agency for the federal government, has introduced two initiatives and is working on a third program to encourage the use of electronic payments to distribute federal benefit payments for programs for which they disburse payments. The first initiative, "Go Direct," is Treasury's marketing and education campaign targeting check recipients. The goal of the campaign is to have more individuals convert from paper checks to direct deposit by emphasizing the benefits of direct deposit—such as safety, security, and convenience. According to Treasury, over the last 3 years, 1.8 million recipients have converted from paper checks to direct deposit. However, the rate of growth in direct deposit has slowed. Furthermore, Treasury stated that it faced challenges in

[32]Electronic Benefits and Services Council, *Co-Branding of EBT Cards: Review and Identification of Issues White Paper* (November 2007). The Electronic Benefits and Services Council develops and maintains the Quest Operating Rules, which specify uniform rights and responsibilities for those involved in processing EBT transactions. The council consists of a broad cross section of public and private-sector EBT stakeholders and includes the Co-Branding Work Group.

converting unbanked recipients to electronic payments and in reaching new enrollees.

To overcome challenges related to converting check payments to electronic payments, Treasury developed a second initiative. Specifically, in January 2007, Treasury piloted the Direct Express debit card (bearing the MasterCard logo) for 1 year to unbanked Social Security and SSI recipients in Illinois. Approximately 3,000 recipients participated in the program. According to its Web site, Treasury's financial agent established a Direct Express account for the recipients, who then could use the card at ATMs to access benefits in their accounts. The pilot was successful, and Treasury launched the Direct Express card nationwide in April 2008. According to Treasury officials, results of a survey conducted after the pilot showed that 85 percent of the card users were satisfied with the debit card, and that 88 percent indicated that they would refer the program to a family member or a friend. Information provided on Treasury's Web site indicated that Direct Express gives recipients the advantages of direct deposit, even if they do not have a bank account. In addition, Treasury explained on its Web site that the Direct Express card offers cardholders the convenience and security of making purchases anywhere that MasterCard is accepted and of getting cash back at thousands of locations and ATMs. Some of the services provided free of charge include

- purchases at retail locations, cash back with purchases, or cash withdrawal through banks or credit unions;
- one ATM cash withdrawal for each deposit posted to accounts each month when using a Direct Express ATM;
- balance inquiry at ATMs, by telephone or online; and
- access to the toll-free customer service number or Web site 24 hours a day, 7 days a week.

Furthermore, the Direct Express card benefits are FDIC-insured, and the consumer protections of Regulation E (such as disclosures of consumer liability and procedures for resolving errors) apply to the debit card account. The Web site also notes that Treasury and SSA strongly recommend that Social Security and SSI recipients receive benefits electronically—either by direct deposit to their bank accounts or to a Direct Express debit card. However, recipients are not required to sign up for the Direct Express card if they do not have a bank account. Furthermore, if after signing up for a Direct Express card, recipients do not like using it, they may close their card account. As an alternative, Treasury suggests that these recipients enroll in direct deposit. According to Treasury officials, because of the many features that we have previously described, they are optimistic that the debit card will reach the core of check recipients that are reticent about electronic payments.

Lastly, to address the challenge that new enrollees present, Treasury is working closely with SSA to ensure that new SSA benefit enrollees sign up for direct deposit at the point of the initial application for benefits. Through a newly designed application process, SSA will encourage benefit applicants to sign up for direct deposit into an existing bank account. Furthermore, SSA will offer the Direct Express debit card to individuals who do not have bank accounts. Treasury and SSA will also market direct deposit and the Direct Express debit card to preretirees.

Although Treasury disburses payments for some federal agencies and programs, it does not disburse payments on behalf of all federal agencies because some agencies have authority to disburse payments themselves—for example, when an agency has statutory authority or when Treasury delegates to an agency the authority to issue specific payments. As the federal government's leader for payments, Treasury said that its goal is to move toward an all-electronic government for disbursement and collection of payments. Toward this end, Treasury, in its Fiscal Years 2003-2008 Strategic Plan has discussed increasing electronic payments as a strategic goal and also has identified a cross-cutting objective and strategy, such as including federal program agencies as key partners in achieving this goal. Furthermore, Treasury encourages all agencies to improve their cash management practices by using EFT whenever cost-effective, practicable, and consistent with statutory authority. For example, Treasury officials told us that they met with CFOs from the largest federal agencies (those under the CFO Act) to discuss payment solutions and other issues, and that they are willing to meet with any federal agency to discuss issuing payments on their behalf electronically.[33] Specifically, in the late fall of

[33]Pub. L. No. 101-576, 104 Stat. 2838 (Nov. 15, 1990), *codified at* 31 U.S. C. § 901(b). The agencies listed in this provision are the Departments of Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Homeland Security, Housing and Urban Development, Interior, Justice, Labor, State, Transportation, Treasury, Veterans Affairs; and the Environmental Protection Agency, the National Aeronautics and Space Administration, the Agency for International Development, the General Services Administration, the National Science Foundation, the Nuclear Regulatory Commission, the Office of Personnel Management, the Small Business Administration, and the Social Security Administration.

2006 and early 2007, FMS's Commissioner and Deputy Commissioner established an effort to meet with the CFO and Deputy Chief Financial Officer of each of the 24 CFO Act agencies. In addition, the Commissioner and Deputy Commissioner attended a Small Agency Council meeting of the financial officers of executive federal agencies that are not a part of the CFO Act.

These meetings with other agencies were designed as an opportunity for Treasury to strengthen communications and establish relationships with those who influence financial management within the federal sector as well as to discuss Treasury's program initiatives, such as increasing electronic payments. According to Treasury, there was universal support during the CFO meetings for its goal of moving to all-electronic means for payments and collection. Treasury also noted that agencies cited as concerns a lack of staff and a lack of funding resources to undertake EFT and related electronic initiatives, although these concerns were not specific to electronic payment. Treasury introduced this action due to personnel changes in FMS's Office of the Commissioner and in the CFO offices of some agencies. In addition, according to Treasury, as a part of its routine business activities, Treasury conducted informal outreach at the program level, particularly to staff from the larger agencies for which it disburses payments, such as SSA and VA, to encourage the use of electronic payments. These efforts were positive in introducing agencies to Treasury's initiatives and also provided Treasury with information on some of the challenges agencies were facing in using electronic methods. However, while Treasury's focus has primarily been on the larger agencies for which it disburses payments, smaller agencies could also benefit from these outreach efforts. Treasury has not conducted outreach to CFOs and staff from smaller agencies on a consistent basis and has no plans for more regular outreach to CFOs and smaller agencies, including those that may not fully use electronic payments. However, officials from one agency told us that other agencies could benefit from Treasury's experience and expertise on electronic solutions. By developing a means to ensure regular dialogue with the CFO Act agencies and other smaller agencies for which Treasury disburses payments, Treasury may be able to further encourage the use of electronic payments and help agencies develop solutions to address the challenges or constraints they are facing. Such action could assist Treasury in reaching its goal of moving to an all-electronic government for payments.

Conclusions

The use of electronic payments to disburse federal benefits appears to be increasingly accepted by agencies and recipients. The results of our survey of 42 federal benefit programs indicated that 34 programs used some form of electronic payment to disburse benefits to the majority of recipients. At the same time, some of these programs also continue to disburse benefits using a paper check, and some programs we surveyed did not disburse benefits electronically, which means that some challenges remain to increasing the use of electronic payments. Agency officials and industry and consumer group representatives were largely in agreement that there are several advantages of electronic payments compared with paper checks, but they also recognized that agencies have several factors to consider when making the decision to implement an electronic payment method. When agencies decide to implement an electronic payment method to disburse benefits, they do so while considering the perceived disadvantages of electronic payments, characteristics of the program whose payments will be made electronically, costs of implementing and using an electronic method, and potential risks associated with electronic payments. Taking these factors into consideration can help agencies understand how best to choose and implement the most appropriate electronic payment method for distribution of federal benefit payments. Doing so might also have the added benefit of encouraging the increased use and acceptance of electronic payments among recipients.

Federal and state agencies have a range of options to increase the use of electronic payments to distribute federal benefits payments, and, specifically, Treasury has a leadership role in supporting the use of electronic payments. These options include the most-sweeping option that mandates electronic payments without exception to less-sweeping alternatives that range from making electronic payment a default option to conducting more public education and outreach and implementing pilot programs. Moreover, through its initiatives, such as the "Go Direct" campaign and the Direct Express debit card, Treasury has used some of these options and assisted agencies for which it disburses payments in increasing the use of electronic payments. Treasury has also taken steps to encourage federal agencies to improve their financial management practices, including increasing the use of electronic payments. Conducting such an outreach effort on a more regularly scheduled basis—including meeting with the agencies we identified in this report that did not use electronic payments or did not fully use electronic payments to disburse benefits—would allow Treasury to include more detailed discussions about electronic payments and develop ongoing relationships with agencies' CFOs and staff who could use Treasury's expertise to move toward the use of electronic payments governmentwide.

Recommendation for Executive Action

To help Treasury achieve its goals of increasing the use of electronic payments and moving to an all-electronic government, we recommend that the Secretary of the Treasury direct the Commissioner of FMS to consider developing a process for conducting outreach to federal agencies on a more regular basis, with the goal of identifying opportunities for increasing the use of electronic payments. For example, Treasury could meet with agency CFOs, or their designees and with staff from smaller agencies, on a semiannual or annual basis to discuss challenges that agencies face in moving to electronic payments and to identify actions that Treasury and agencies could take to facilitate the transition to electronic payments.

Agency Comments and Our Evaluation

We requested comments on a draft of this report from the Secretaries of Treasury and USDA. In an e-mail summarizing comments from Treasury's Financial Management Service, Treasury noted that it generally agreed with the report. Treasury did not comment on the recommendation but stated that it would address the recommendation in its statement of actions to congressional committees not later than 60 days after the date of the report. Treasury suggested we note in the report that while there has been increased support for mandating electronic payments, some consumer and special interest groups have not been supportive of implementing a mandatory electronic delivery method for delivering benefits. Our report presented various options that exist for agencies to increase electronic distribution of federal benefits, including mandating electronic payments for recipients. We noted in the report that there are concerns about making electronic payments mandatory. Specifically, we stated that some consumer groups and industry representatives believe that recipients should be given a choice of how their benefits payments are distributed. Treasury also provided technical comments that we incorporated in the report as appropriate.

Officials from USDA's Food and Nutrition Service provided oral comments on a draft of this report and stated that they agreed with its overall message. USDA officials specifically stated that up-front costs did not pose the greatest challenge to implementing WIC EBT because the WIC program provides grants to state agencies for EBT project planning and development. Although these officials expressed concern that the grant funds are limited, they stated that the bigger issue for WIC is the ability of state agencies to afford the ongoing costs of EBT. We added language in the report that explains the difficulty with assessing states' ability to afford the ongoing costs of a WIC EBT program. USDA officials also stated that while WIC EBT will allow greater cost monitoring and provide administrative efficiencies, cost reduction is not a key reason for implementing WIC EBT. We understand that not all programs implement electronic payments solely to reduce costs. Nonetheless, agency officials we interviewed cited cost reduction and efficiency as key reasons for implementing electronic payments. We did not specifically attribute this statement to USDA officials, nor did we make a specific reference to WIC EBT.

USDA officials also noted that the report discussed fees that could be passed on to recipients, such as those for minimum balances or ATM fees, but that such fees do not apply to EBT cards that offer access to targeted benefits outside of banks—for example, Food Stamp or WIC benefits redeemed at authorized retailers using the EBT card. We acknowledge that the type of fee and extent to which fees apply vary by the type of electronic payment method being used. We also understand that there are no associated fees for recipients when using EBT cards to access Food Stamp and WIC benefits. However, such fees may apply when accessing other types of benefits—for example, unrestricted cash benefits—using an EBT card or another type of EPC. Our intent was to generally describe the types of perceived disadvantages of using electronic payment methods—which included fees, recipient and benefit characteristics, and certain banking practices, among others—and not necessarily to link only EBT to a discussion of fees or to imply that all methods of electronic payment have all of the perceived disadvantages described in the report. USDA officials also provided technical comments, which we incorporated in the report where appropriate.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of the report to the Chairman, House Committee on Oversight and Government Reform, and other interested congressional committees. We are also sending copies of this report to the Secretary of the Treasury; the Secretary of Agriculture; the Chairman, Board of Governors of the Federal Reserve System; the Commissioner of the Social Security Administration; the Secretary of Labor; and other interested parties. We will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff have any questions concerning this report, please contact me at (202) 512-8678 or jonesy@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix III.

Sincerely yours,

Yvonne D. Jones
Director, Financial Markets
and Community Investment

Appendix I: Objectives, Scope, and Methodology

Our objectives were to (1) describe the extent to which federal programs are using electronic payment methods to disburse benefits; (2) identify factors that agencies consider when implementing or using electronic payments; and (3) identify potential options for increasing the use of electronic payments, particularly the Department of the Treasury's (Treasury) actions to increase electronic payments.

To respond to these objectives, we reviewed agency documents, reports, and studies on electronic payments. We interviewed Treasury officials and collected written and testimonial information about their experiences in implementing and using electronic payment methods to distribute benefits, as well as current initiatives aimed at increasing the use of electronic payments. We conducted a site visit to Harrisburg, Pennsylvania, and met with state agency officials in the state's Department of Health, Department of Public Welfare, and Office of the Budget to obtain information on the state's use of electronic payments because Pennsylvania was the first state to pilot Electronic Benefit Transfer for the Food Stamp Program in October 1984. We interviewed officials at the following six federal agencies responsible for overseeing or administering federal benefit programs that provided recurring benefits to individuals to obtain information on their use of electronic payments: the U.S. Department of Agriculture (USDA), Department of Labor (DOL), Department of Veterans Affairs, Social Security Administration (SSA), Department of the Interior's Bureau of Indian Affairs, and Department of Health and Human Services. We also attended conferences sponsored by NACHA—The Electronic Payments Association's Electronic Benefits and Services Council and the Electronic Funds Transfer Association to observe presentations from a variety of federal and state agencies, electronic payment providers, and private-sector consultants on issues related to implementing and using electronic payment methods to disburse benefits.

To determine the extent to which federal programs use electronic payments, we used the Catalog of Federal Domestic Assistance (CFDA) and the Federal Assistance Award Data System (FAADS) to identify federal benefit programs that provided recurring payments to individuals.[1]

[1]The CFDA database is administered by the General Services Administration and provides narrative records of federal benefit and service assistance programs compiled with information self-reported by agencies. The FAADS database is a central collection of selected data on federal financial assistance award transactions, administered by the U.S. Census Bureau.

CFDA and FAADS, used together, provided general information on each federal benefit program, including a brief description of the program, the number of recipients in the program, and dollar amounts obligated for the program. Our analysis of CFDA and FAADS data began on June 14, 2007, and we used the most recently available data as of that date for our analysis. For CFDA, we analyzed data from fiscal year 2006. The most recent complete set of available data from FAADS was from fiscal year 2005.[2]

We first queried the CFDA database to obtain a list of programs that would be suitable for our review.[3] The CFDA query returned a list of programs, for which the team needed corresponding data from FAADS, including the number of recipients and the dollar amount obligated for each program. The unique CFDA number for each program was the primary data element that allowed us to obtain corresponding information from the FAADS database for those programs identified in CFDA. Therefore, we queried a list of similar programs using the FAADS database. These queries ultimately returned 455 federal benefit programs.

The team developed criteria and, using program descriptions from CFDA, agency, and other government Web sites, conducted a content analysis of the programs to determine which of the 455 programs identified by FAADS and CFDA met our criteria for further review. For example, consistent with our criteria, we excluded programs whose benefits were not ultimately paid to individuals, programs that did not provide recurring payments, loan or loan guarantee programs, programs whose payments were made in connection with an insurance program, and programs whose payments subsidized the hiring or salaries of employees. On the basis of our review of the programs using these multiple sources of information,

[2]The fourth quarter 2006 FAADS data were made available on Census' Web site as of August 31, 2007. However, we did not use that data because, by that time, the team had already identified programs on the basis of existing FAADS and CFDA data and was in the process of developing and implementing the Web-based survey.

[3]We selected programs from CFDA that were classified as Formula Grants, Direct Payments for Specified Use, and Direct Payments for Unrestricted Use. We did not select a number of program lists from CFDA because they did not appear to return the types of programs that would be most suitable for our review. For example, programs that were coded as "Project Grants" were not selected, since our understanding of project grants was that they were funding provided by the government for a specific purpose, with characteristics, such as nonrecurring payments, that excluded them from our review. However, we later reviewed a sample of programs that were classified as "Project Grants" and, ultimately, determined that those programs would not be included in our review.

we selected 45 federal programs that met the criteria.[4] As such, the final selection of programs for study was a nonrandom, nongeneralizable sample of programs selected to represent a variety of federal benefit programs that exist.

The FAADS and CFDA databases provided information that allowed us to identify programs, but the databases did not provide information on whether electronic payments were used to disburse benefit payments. Therefore, we surveyed the 45 programs we identified to obtain information on the extent to which they used electronic payments. We conducted a Web-based survey with the 11 agencies responsible for administering the 45 programs, but we later excluded 3 programs upon receiving their survey responses.[5] We requested the names and e-mail addresses of specific program respondents—typically, program officials or managers in the divisions responsible for administering the program—from the GAO liaison at each agency in which we sent surveys. To ensure security and data integrity, we provided each program respondent with a Web address, a unique identification number, and a password to allow them access to the survey.

The survey included questions on program funding and benefits, program data and statistics, electronic payments, paper check payments, voucher payments, and other types of payments used to deliver benefits. To prepare for the survey, we pretested the survey with program officials for 4 programs to determine whether respondents would understand questions the way that we intended. Since the survey was administered via the Internet, we also conducted a usability pretest with officials from 1 of the programs we surveyed to observe the respondent answering the survey questions as they would appear when the survey was activated. To increase the response rate of the survey respondents, we sent two reminder notices via e-mails to encourage completion prior to the survey deadline and conducted follow-up telephone calls to those programs that did not respond to the survey by the initial deadline. We checked the validity of the survey data by conducting limited checks of the accuracy of

[4] Initially, we identified 44 programs, but we later learned that 1 program we had identified was actually administered as 2 separate programs. Therefore, we expanded the number of programs identified to 45.

[5] On the basis of survey responses and the follow-up we conducted, we collapsed 2 programs into 1, and decided to exclude 2 additional programs when we learned they did not meet our criteria for inclusion in the review and, thus, should not have been surveyed. Ultimately, we analyzed survey responses for 42 federal benefit programs.

survey responses from agency officials using a data verification protocol. We identified key survey items for which we wanted to verify or obtain additional information as well as other survey items that were missing or incomplete. For the programs that we determined should not have been included in the review on the basis of their survey responses, we did not conduct follow-up if the program provided sufficient information to determine that it should have been excluded.

Survey development, such as obtaining contact information for survey respondents and conducting survey pretests began on September 10, 2007, and our collection of survey responses ended on January 31, 2008. We received responses from all 42 programs, providing an overall response rate of 100 percent. While the overall response rate to the survey was 100 percent, not all survey questions were answered by our respondents, particularly the two questions that asked for the total dollar value of benefits paid electronically and by paper check.

To assess the reliability of the FAADS and CFDA databases, we (1) reviewed existing information related to the data sources, (2) performed electronic testing for obvious errors in accuracy and completeness, and (3) interviewed agency officials knowledgeable about these data. There were certain limitations with the FAADS and CFDA databases—namely, the fact that the information is self-reported by various agencies and may have missing or incorrect information. However, given our intended use of the FAADS and CFDA data—to identify programs that provide recurring benefits to individuals, not to identify the entire universe of federal benefit programs or make statements about a particular population of programs—and the results of previous reliability assessments of CFDA, the data elements were sufficiently reliable for the purposes of selecting a variety of programs to include in our review.

To identify factors to consider when implementing electronic payments and options for increasing use of electronic payments, we interviewed and obtained documentation from Treasury and other federal agencies, such as USDA, DOL, and SSA, among others. We also met with experienced private-sector consultants who had assisted agencies in developing or implementing electronic payment solutions, such as Booz-Allen Hamilton; Maximus; and Burger, Carroll, and Associates, Inc., and with the three major electronic payment providers that agencies use to implement electronic payment solutions—J.P. Morgan Chase, Affiliated Computer Services, and EFD (eFunds Corporation). In addition, we obtained the views of consumer advocacy organizations, such as the Consumer Federation of America, Consumers Union, and the National Consumer

Law Center. Finally, we interviewed representatives from groups representing the electronic payments industry, such as the Electronic Funds Transfer Association and NACHA—The Electronic Payments Association.

We also selected the following 5 programs from our survey to use as case illustrations and examined additional information related to their experiences using electronic payments: Supplemental Nutrition Program for Women, Infants, and Children; Indian Social Services Welfare Assistance; Supplemental Security Income; Unemployment Insurance; and Trade Adjustment Assistance. In selecting programs for case illustrations, we considered survey responses that were important for describing the characteristics of each program, such as the type and frequency of the benefit payment; the number of recipients in the program; the dollar value of benefit payments made to recipients in the program; and the extent to which the program used electronic payments to disburse benefits. The team then purposively selected programs that represented a variety of the characteristics found in the data.

Four of the 5 programs that we selected for case illustrations were federal programs whose benefits were administered by individual state or tribal agencies. For these programs, we selected state and tribal agencies in Arizona, California, Georgia, Michigan, Minnesota, Ohio, Oklahoma, Texas, and Utah and conducted interviews with program officials to obtain more information on factors that they considered when deciding to implement electronic payments and options for increasing the use of electronic payments. In selecting state agencies and tribes, we considered various factors, such as whether they were using or planning to use electronic payments, had conducted pilots to test the feasibility of using electronic payments, and recommendations from agency officials.

We conducted our work from April 2007 through June 2008 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Selected Data for the 42 Federal Benefit Programs We Surveyed, by Dollar Value of Benefit Payments (Fiscal Year 2006)

Agency	Program name	Dollar value of benefit payments (FY 2006)	Number of participants (FY 2006)	Use an electronic payment method?	Type of benefit
Social Security Administration	Social Security Retirement Insurance	$418,056,535,776	33,945,000	Yes	Cash
Social Security Administration	Social Security Disability Insurance	77,846,049,345	8,612,000	Yes	Cash
Social Security Administration	Supplemental Security Income	41,547,968,487	7,200,000	Yes	Cash
Department of Labor	Unemployment Insurance	30,986,000,000	7,540,000	Yes	Cash
U.S. Department of Agriculture	Food Stamp	30,187,346,987	26,671,819	Yes	Noncash
Department of Veterans Affairs	Veterans Compensation for Service-Connected Disability	28,318,763,832	2,725,824	Yes	Cash
Department of Education	Federal Pell Grant Program	12,856,697,796	5,164,302	Yes	Cash
Department of Health and Human Services	Temporary Assistance for Needy Families	11,287,301,420	4,230,189	Yes	Both cash and noncash
Railroad Retirement Board	Social Insurance for Railroad Workers	9,934,658,062	577,600	Yes	Cash
U.S. Department of Agriculture	Special Supplemental Nutrition Program for Women, Infants, and Children	5,072,000,000	8,088,000	Yes	Noncash
Department of Veterans Affairs	Pension Program	3,426,982,020	536,294	Yes	Cash
Department of Health and Human Services	Low-Income Home Energy Assistance	2,480,000,000	5,300,000	Yes	Both cash and noncash
Department of Veterans Affairs	All-Volunteer Force Educational Assistance	1,995,531,647	332,184	Yes	Cash
U.S. Department of Agriculture	Nutrition Assistance for Puerto Rico	1,412,694,137	1,064,039	Yes	Both cash and noncash
Department of Education	Leveraging Educational Assistance Partnership	1,305,357,374	1,107,038	Yes	Cash
Department of Education	Federal Supplemental Educational Opportunity Grants	864,902,427	1,011,742	Yes	Other
Department of Labor	Coal Mine Workers' Compensation	625,000,000	81,000	Yes	Cash

Agency	Program name	Dollar value of benefit payments (FY 2006)	Number of participants (FY 2006)	Use an electronic payment method?	Type of benefit
Department of Labor	Trade Adjustment Assistance	503,722,489	83,989	Yes	Both cash and noncash
Department of Veterans Affairs	Survivors and Dependents Educational Assistance	494,909,355	75,460	No	Cash
Department of Labor	Disaster Unemployment Assistance	401,074,801	172,633	Yes	Cash
Department of Veterans Affairs	Veterans Dependency and Indemnity Compensation for Service-Connected Death	358,137,814	341,438	Yes	Cash
U.S. Department of Agriculture	Milk Income Loss Contract Program	351,601,585	52,430	Yes	Cash
Department of Education	Academic Competitiveness Grants	240,000,000	307,545	Yes	Cash
Department of Health and Human Services	Refugee and Entrant Assistance State Administered Programs	171,276,542	N/A	Yes	Both cash and noncash
Department of the Interior	Indian Social Services Welfare Assistance	80,000,000	N/A	No	Cash
Department of Health and Human Services	Family Support Payments to States Assistance Payments	32,800,000	N/A	Not sure	Both cash and noncash
U.S. Department of Agriculture	WIC Farmers' Market Nutrition Program	18,400,000	2,497,162	No	Cash
Social Security Administration	Special Benefits for Certain World War II Veterans	15,247,594	2,450	Yes	Cash
Department of the Interior	Indian Employment Assistance	14,051,101	6,109	No	Cash
Department of Homeland Security	Scholars and Fellows	10,200,000	266	Yes	Cash
Department of Health and Human Services	Nurse Anesthetist Traineeships	1,250,000	74	Yes	Cash
Department of Health and Human Services	Disadvantaged Health Professions Faculty Loan Repayment	1,067,968	71	Yes	Cash
Department of Veterans Affairs	Post-Vietnam Era Veterans' Educational Assistance	1,034,991	627	No	Cash
Department of Justice	Public Safety Officers' Educational Assistance	882,015	189	Yes	Cash
Department of Transportation	State Maritime Schools	722,516	181	Yes	Cash

Agency	Program name	Dollar value of benefit payments (FY 2006)	Number of participants (FY 2006)	Use an electronic payment method?	Type of benefit
Department of Health and Human Services	Minority Faculty Fellowship Program	108,786	2	Yes	Cash
Department of the Interior	Indian Job Placement United Sioux Tribe Development Corporation	N/A	0	No	Cash
Social Security Administration	Social Security Survivors Insurance	N/A	6,566,000	Yes	Cash
Department of Health and Human Services	Chafee Education and Training Vouchers Program	N/A	N/A	Yes	Cash
Department of Veterans Affairs	Vocational Training and Rehabilitation for Vietnam Veterans' Children with Spina Bifida or Other Covered Birth Defects	N/A	N/A	Not sure	Both cash and noncash
Department of Veterans Affairs	Monthly Allowance for Children of Vietnam Veterans Born with Spina Bifida	N/A	N/A	Yes	Both cash and noncash
Department of Health and Human Services	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	N/A	1,799,300	Yes	Cash

Source: GAO analysis of responses to a survey of federal benefit programs.

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

In addition to the individual named above, Kay Kuhlman, Assistant Director; Mark Egger; Kevin Jackson; Jamila Jones; Yola Lewis; Robert Lowthian; Natalie Maddox; Andrew Nelson; Carl Ramirez; Linda Rego; and Barbara Roesmann made key contributions to the report.

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