

**DELAWARE HEALTH
AND SOCIAL SERVICES**

Carmen R. Nazario, Secretary

TESTIMONY OF CARMEN R. NAZARIO

**SECRETARY OF HEALTH AND SOCIAL SERVICES
STATE OF DELAWARE**

FEBRUARY 2, 1994

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On The

FOOD STAMP FRAUD REDUCTION ACT OF 1993

FEBRUARY 2, 1994

I am Carmen R. Nazario, Secretary of The Department of Health and Social services for the State of Delaware. Thank you for the opportunity to contribute to your deliberations on the Food Stamp Fraud Reduction Act of 1993, (S. 1646) introduced by Senator Patrick Leahy, to mandate nearly universal food stamp electronic benefit transfer (EBT) within three years.

I am providing these comments to support this Bill, but to also ask that you strengthen the provisions to ensure states are provided reasonable flexibility in identifying and pursuing innovative EBT ideas in order to improve efficiencies in delivering benefits.

Delaware, under Governor Thomas R. Carper's leadership, is deeply committed to improving the efficiency, the convenience, and the security of its social services delivery. Delaware believes that EBT provides the opportunity for states to be more efficient and effective in the delivery of benefits in the Food Stamp Program (FSP) and the Special Supplemental Food Program for Women, Infants, and Children (WIC). Given this commitment, Delaware supports the basic concept of the Bill's intent to assess the best EBT system(s) for the efficient and secure delivery of services.

Delaware, as I am sure most states are, is in complete agreement with the Bill's honorable objectives. They are key to integrating and simplifying the assistance we provide our clients and they are key in achieving the effective delivery of benefits to those we are trying to assist.

At the same time, we are concerned that the Food Stamp Fraud reduction Act of 1993, could be used to stifle the very initiatives the Bill is attempting to encourage. These initiatives include using innovative techniques to achieve two goals: (1) reduce the diversion of food stamp benefits and (2) provide for multiprogram EBT systems.

Recent decisions by the United States Department of Agriculture, Food and Nutrition Service (FNS), to direct or strongly encourage states to pursue the Magnetic Stripe On-Line electronic card for food stamps EBT, and the FNS decision that the Smart Chip electronic card adequately represents EBT in off-line technology do not go far enough.

During the past 15 months my staff has fully investigated the EBT capabilities of the Magnetic Stripe and the Smart Chip cards. We are convinced that while these technologies can carry out limited financial and administrative functions in a controllable environment, neither card is really capable of reducing food stamp fraud nor truly accommodating a multiprogram approach. Indeed, it appears that the stymied progress of getting states to commit to EBT is significantly due to the unacceptable liability of Regulation E in replacing benefits lost due to client neglect, fraud, or abuse.

Delaware, as a prudent manager of the public trust, is keenly interested in the security of the benefits delivered to our consumers. Security of benefits must address two issues. First, it is important that our all of our clients can receive and redeem benefits without fear of theft, robbery, or extortion. This is particularly necessary for our elderly clients and those who reside in or near high crime areas. Second, it is important that benefits are used only by those for whom they were intended. The diversion of benefits, such as the trafficking of food stamps, not only deprives those we are most trying to help, it also substantively detracts from public confidence in the integrity of our worthwhile programs.

Another extremely important issue to Delaware is the privacy of clients' personal information. Privacy of personal information is a most fundamental right of American society. It is so fundamental, that the release of confidential personal data can be done only with the written consent of the person about who the information pertains. Delaware believes that holding personal confidential client information is a sacred and bonding trust between the government and its constituents. Therefore, Delaware believes that an EBT system should place the empowerment of privacy into the hands of the client.

At this point I wish to review the key elements of what Delaware considers imperative to a truly effective EBT program: (1) **Multiprogram**; A system that integrates and simplifies the delivery of assistance which enhances convenience and efficiency. (2) **Benefit Security**; Assurances that our customers need not fear the loss or the theft of their benefits and assurances that our taxpayers know benefits are not fraudulently used. (3) **Privacy**; Confidence that personal and confidential information will not inadvertently fall into the hands of those who have may have the interest but not the authority to know.

A Review of the Competing Technologies

There are three kinds of electronic cards generally under discussion for EBT programs. They are the Magnetic Stripe Card, the Smart (Chip) Card, and the Laser Optical Memory Card.

Although all three cards are fully capable of providing a basic EBT delivery system, only one, the Laser Optical Memory Card has the technological capacity to deliver the key elements Multiprogram, Benefit Security, and Privacy.

MAGNETIC STRIPE CARDS--Mag Stripe Cards are commonly used throughout the U. S. and are the kind of credit card users find in their wallets and pocketbooks. These cards require extensive and expensive on-line telecommunications and centralized main frame support. All pertinent client and benefit information is held on the main frame. The information capacity of the card is a few lines of information which is just enough to gain access to the mainframe. While this is a relatively quick way of putting states on EBT, it has serious drawbacks. First, as mentioned earlier, the lack of information capacity on the card requires all client personal data and account history be maintained on a centralized main frame. This means that every data transaction requires a two way electronic communication between an Automated Teller Machine or Point of Sale and the central data main frame. The sheer volume and the complications of issuing complex program services raises serious questions as to the systems capacity to handle multiprogram accounts efficiently and conveniently.

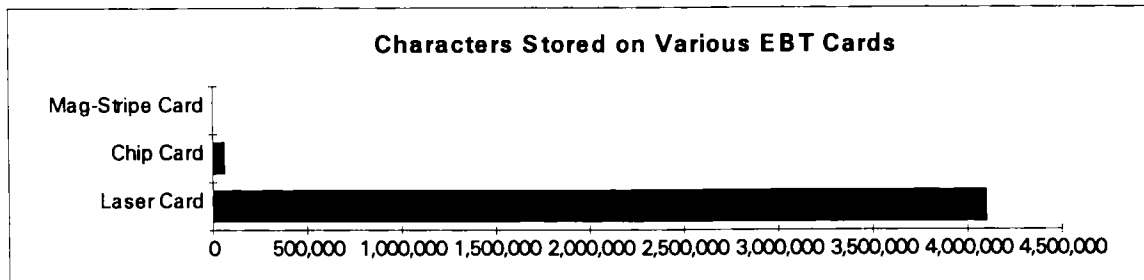
Second, the Mag Stripe Card can not provide benefit security. A benefit card that is lost, stolen, or sold (trafficked) along with the Personal Identification Number (PIN) allows access to benefits by unauthorized users. This lack of security places EBT in a untenable position of liability under Regulation E as regulated by the Federal Reserve Board. Finally, the Magnetic Stripe Card is vulnerable to system failure due to down time of the telecommunications network and/or the main frame, or damage to the magnetic stripe portion of the card.

SMART (CHIP) CARDS--Smart Cards contains a mini-processor and a small memory capacity. Cards range from 16 to 102 thousand bits of information, with a general standard use of 64 thousand bits (equivalent to about 4 typed pages). The Smart Card offers two advantages over the Mag Stripe. Most significantly, it is an off-line system that does not require expensive on-line telecommunications and main frame support. Next, the Smart Card has very limited memory storage capacity for information such as benefits and services. This ability to hold information on the card provides privacy. At the same time, the Smart Card has some of the short comings found on the Mag Stripe Card. Namely, limited memory storage and security. The Smart Cards limited storage capacity restricts the type and amount of information that can be retained. This means the card is probably not suitable for multiprogram EBT systems. This also means, the card lacks capacity for the sophisticated security features necessary to assure positive identification that the card user is the authorized beneficiary.

LASER OPTICAL MEMORY CARD--The Laser Card is an off-line electronic card system that overcomes the short comings found with Magnetic Stripe and Smart cards. The Laser Card has a 4.1 million characters of information. This superior capacity (equivalent to about 2,000 pages of typed information) means the card is suitable for multiprogram use thereby making the technology more efficient and more cost effective. Additionally, the card can improve data integrity and benefit security through such possibilities as a digitized color photograph, automated signature comparison, and thumb prints. Further, the card provides the maximum privacy of any

EBT systems being discussed today. This is because the card holder decides what information is released and to whom it is released.

Thus comparing the three cards, we see the Mag Stripe Card holds a half page of typed information, the Smart (Chip) Card holds 4 pages, and the Laser card holds 2000 typed pages of information.



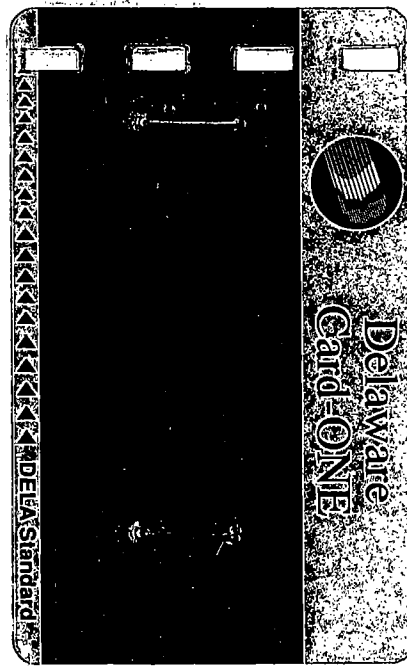
This vast increase in capacity can be used to provide absolute security, thereby reducing if not eliminating fraud. Additionally, the superior capacity can be used to securely expand a single card's use for multiple programs.

I am also providing a copy of the concept paper of the Laser Optical Memory Card with the proposed use for Delaware Card-ONE EBT system. This paper provides, in detail, the many advantages of the Laser Card technology in the significant areas facing the delivery of government benefits: Multiprogram, Benefit Security, and Privacy.

In closing, an EBT system must provide client convenience, must enable government efficiency, and must encourage taxpayers confidence. Magnetic Stripe and Smart (Chip) Card technologies are adequate for credit and debit card applications in the traditional banking environment. They are not, however, responsive to the needs of complex and diverse government benefit programs.

Delaware has made a proposal to use innovative Laser Optical Memory Card technology to reduce food stamps diversion and provide a multiprogram EBT system. At this time, the proposal has been disapproved by FNS.

Your Bill provides the opportunity to encourage or forestall States' innovations in future situations such as this. I challenge this Committee to provide opportunities for states to explore, and to study, and to implement new ways to deliver EBT efficiently and effectively into the twenty-first century.

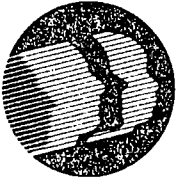


This is a sample optical memory card being considered by the State of Delaware for the Department of Health and Social Services Electronic Benefit Transfer (EBT) project.

- Optical stripe holds up to 4.1 megabytes of data
- Prints up to 100 lines of text and pictures
- Unaffected by magnetic or electronic fields
- Benefits can be carried forward and debited as used
- Can hold approximately 2,000 type-written pages of text, sample room for WIC, Food Stamps, AFDC, GA benefits, child immunizations and Medicaid history for a life-time
- Optional identifying information such as thumb print, signature validation, and photograph assures the correct use of benefits only by authorized holder

The Optical Card System is a product of
CONLUX USA CORPORATION supplied to
the State of Delaware by
COASTAL LOG SYSTEMS, INC.
For info call: (202)694-7900

CLINTON LIBRARY PHOTOCOPY



**DELAWARE HEALTH
AND SOCIAL SERVICES**

Carmen R. Nazario, Secretary

DELAWARE "CARD-ONE"

PRESENTATION TO

**JOINT FINANCE COMMITTEE
STATE OF DELAWARE**

MARCH 8, 1994

DELAWARE "CARD-ONE"

PRESENTATION TO

**JOINT FINANCE COMMITTEE
STATE OF DELAWARE**

MARCH 8, 1994

AGENDA

PRESENTATION TO

JOINT FINANCE COMMITTEE STATE OF DELAWARE

MARCH 8, 1994

DELAWARE CARD-ONE STATUS REPORT: Wayne Bergner

DELAWARE CARD-ONE VISION: Kerry Gustafson

DELAWARE CARD-ONE FOR EBT: Wayne Stultz

ATTACHMENTS

♦ LASER OPTICAL MEMORY CARD

A Technology with Significant Benefits

A Technology with Diversity and Security

Laser Card Technology Can Enable Cost-Effectiveness Through Multi-Program Use

Laser Card Technology Can Virtually Eliminate Unauthorized Use

Laser Card and Regulation E

♦ NEWS PAPER ARTICLES

The News Journal Editorial: "Benefit Cards Could Make Life Easier and Fraud Harder"

Delaware State News: "Card Plan Could Slash Welfare Paperwork"

The News Journal: "Now, Thieves Pull Databank Job"

Government Technology: "Smart Card and The National Agenda"

DELAWARE "CARD-ONE" **STATUS REPORT**

Delaware Health and Social Services is pursuing an Electronic Benefits Transfer (EBT) pilot demonstration project to improve efficiency in delivering benefits in the Food Stamp Program (FSP) and the Special Supplemental Food Program for Women, Infants, and Children (WIC). DHSS proposes using joint Laser Card Off-Line/On-Line technology on a One Card System. The concept pursues opportunities for delivering multiple benefit programs (State, Federal, and Private) to the right family, at the right time, efficiently, and on one card. Additionally, as a pilot demonstration, the project has a good opportunity for 100 percent federal funding.

PROBLEM

Today Government delivers benefits in ways that are inherently inefficient and create a social stigma on the recipient -- through paper. We continue to issue paper vouchers for food and medical services while main stream society moves more and more to the debit card system. We continue to issue paper vouchers for cash payments while main stream society moves more and more to the Direct Deposit, Automated Teller Machine technology. Aside from being inconvenient to both the recipient and the service provider, paper benefits are subject to mail loss, theft, and food stamp trafficking.

Several states, including Maryland and Wyoming have improved the efficiency of issuing benefits by the use of EBT. Both states report that EBT is more efficient, and more convenient than paper benefits.

DELAWARE "CARD ONE"

Delaware "Card One" would follow the EBT concept introduced in other states. However, "*Card-ONE*" Laser Card technology, with tremendous capacity equaling 2,000 typed pages, provides two major features not available with other EBT cards. First, the capacity to deliver all benefits on one card allows clients one-stop shopping convenience for services and enhances cost effectiveness. All stakeholders (government, clients, service providers, and taxpayers) benefit from the improved efficiency and convenience:

- ◆ Easier program administration for government agencies
- ◆ Improved security and sense of self esteem for the client
- ◆ Reduced handling costs by retailers and financial institutions
- ◆ Enhanced taxpayer confidence in program integrity

The second feature is improved card and benefits security through possible digitized pictures, digitized signatures, thumb prints, and voice prints, making it virtually impossible for any one but the authorized card holder to use the card. This enhanced security is especially appropriate given ever increasing credit/debit card fraud and the recent implementation of Regulation E by the Federal Reserve Board. Regulation E makes states liable for electronic benefits lost due to client neglect, abuse, or fraud. According to data prepared by the U.S. Treasury Department, Regulation E could cost national EBT \$827 million. Delaware could lose \$1.1 to \$1.9 million a year.

CURRENT STATUS

DHSS established The *Delaware "Card One"* Task Force. The Department is asking the United States Department of Agriculture, Food and Nutritional Service (FNS) for a 100 % Demonstration Grant. DHSS is prepared to issue Requests For Proposals for a Feasibility Study contract and for a Project Evaluation contract. The Governor and the Legislature have indicated strong interest in the EBT Project as well as have other State agencies. As a result of this interest and encouragement, DHSS submitted a budget request to the Budget Director to support "*Card-ONE*" in the event FNS funding is less than requested.

Delaware is a member of the States Group on the National EBT Task Force. Our representation includes:

- ◆ Chair- Committee on Standard Services and Areas of Flexibility
- ◆ Member- Committee on National Implementation Strategy
- ◆ Member- Committee on Organizational and Management Issues
- ◆ Member- Committee on Recipient Issues

DHSS is also a member of:

- ◆ State-Federal EBT Task Force on Regulation E
- ◆ State of Delaware Electronic Data Interchange Task Force
- ◆ Electronic Data Interchange workgroup jointly formed by the Delaware Medical Society and the American Medical Association

Clinton Presidential Records Digital Records Marker

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Slides

Divider Title: _____



DELAWARE "CARD ONE" VISION

Electronic

Benefits

Transfers



LASER CARD

- Like Compact Disks - Very Durable
 - 2,000 Pages - Many Uses for Delaware
 - * 2 Pages - GA and AFDC
 - * 4 Pages - WIC Food Prescriptions
 - * 2 Pages - Food Stamps
 - * 1 Page - Life-Time Immunization History
 - * 4 Pages - Life-Time Drug Prescriptions
 - * 25 Pages - Life-Time Medical History
 - * 2 Pages - Senior Citizens Services/Information
- *1,960 Pages?



LASER CARD TECHNOLOGY

Video



THE VISION

★Delaware "Card-ONE"

AN INTEGRATED CARD FOR
DELAWARE CITIZENS

- *EFFICIENT
- *CONVENIENT
- *REDUCES FRAUD

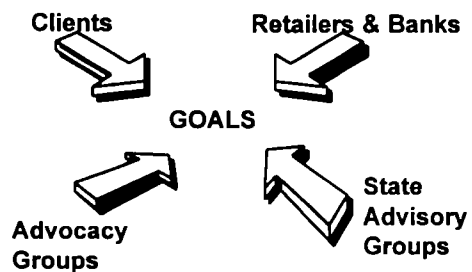


1,960 PAGES LEFT
AFTER DHSS USE

- SECURITY (Picture, Signature, Thumb Print)
- Drivers License? With Driving Record?
- Voting Card? DART Tolls?
- Library Card? Road Tolls?
- State Parks Pass?



STAKEHOLDERS' PARTNERSHIPS





HOW DO WE ISSUE BENEFITS NOW?

• Paper

- *Food Stamps Authorization Mailed To Client Who Takes It To A Bank To Cash-In For FS Coupons
- *WIC Clients Go To State Agency For Vouchers
- *Government Mails Checks Which Are Cashed At Banks and Various Retailers



PROBLEMS WITH PAPER BENEFITS

- ⊗ RECIPIENTS - Concern About Lost or Stolen Benefits and Social Stigma
- ⊗ GOVERNMENT - Inefficient and Costly To Taxpayers
- ⊗ FRAUD- Black Market In Food Stamps Trafficking



CLIENT BENEFITS

- ☺ Improved Convenience
- ☺ Security in Receiving and Redeeming Benefits
- ☺ Decreased Social Stigma
- ☺ Better Benefit Management



GOVERNMENT BENEFITS

- ☺ More Efficient, Effective Delivery
- ☺ Easier Administration
- ☺ Easier Tracking, Auditing, and Reporting



DELAWARE CARD-ONE IS EFFICIENT:

- AFDC, Food Stamp, WIC Benefits
- Family Medical and Immunization History
- Pharmaceutical Records
- Unemployment Benefits, Section 8 Housing, Social security, Etc.
- Radiology Record With Xray Images



EFFICIENCY = REDUCED COSTS

- Deliver Multi Benefits On One Card
- Spread Costs Over Many Programs- More Cost Effective
- Better Use Of Taxpayers' Money



DELAWARE CARD-ONE IS SECURE

- Digitized Picture ID
- Electronic Signature Comparison
- Thumb Print
- Dual Personal Identification Numbers



SECURITY = BENEFIT INTEGRITY

- Eliminates Food Stamp Trafficking
- Eliminates Health Care Abuse
- Greatly Reduces Potential For Duplicating or Overlapping Client Services
- Provides Taxpayer Confidence in Program Integrity



DELAWARE CARD-ONE IS PRIVATE

- The "Card Holder" Controls Access To Card Information
- Privileged Information Status is Maintained



FEDERAL RESERVE BOARD REG "E" ON EBT

- Reg E Is an "Unfunded Federal Mandate"
- Transfers Liability for Client Neglect, Abuse and/or Fraud to the States
- The U.S. Treasury Reports The National Cost Of Reg "E" On EBT Could reach \$827.6 Million.
- Cost To Delaware = \$1.1 to \$1.9 Million Per Year



DELAWARE CARD-ONE AVOIDS REG "E" LIABILITY

- Delaware Card-ONE Security Options Will Mitigate Regulation "E" Liability
 - * Digitized Picture ID
 - * Electronic Signature Comparison
 - * Thumb Print



WHAT ARE THE PLANS?

- Assuming a Feasibility Study Result with a Go Decision
- Food Stamps and WIC On EBT By Fall 1995
 - * Pilot In Kent County
 - * Do Rest Of State Incrementally
- Start Other Programs Fall 1996



COMMUNITY AND BUSINESS PRESENTATIONS

• We Received Favorable Responses

- *Mid-Atlantic Food Retailers Association
- *Delaware Retailers for Food Stamps and WIC Programs
- *Various Central Delaware Rotary Clubs
- *State of Delaware Department of Finance
- *Delaware State Treasurer
- *USDA Food and Nutrition Services Regional Administrator



News Journal Editorial Excerpts

• On Delaware "Card-ONE"

- *"Such a program would not only coordinate statewide services more efficiently, it would clearly cut down on the amount of fraud by those who illegally sell and buy food stamps, which has increased recently."

- *"For the Department of Health and Social Services and Secretary Carmen R. Nazario it is a win-win program."

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Laser Cards

Divider Title: _____

The following is a brief description of the Laser Card and its advantages for Delaware Card-ONE:

Delaware "Card-ONE"

A Technology with Significant Benefits

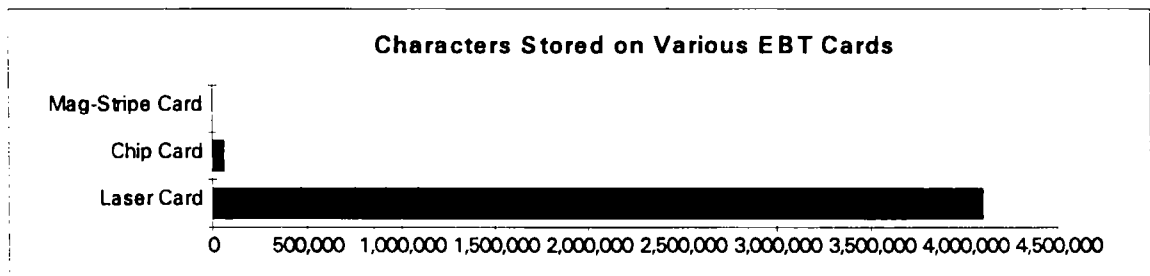
Laser Optical Memory Cards utilize a technology very familiar to those who buy their music on compact discs. Like the compact discs a shiny surface is part of the card. With a compact disc, music is digitally recorded on that shiny surface by a laser beam. With a Laser-Card used in a social services setting, information about the client and the benefits the client is to receive are digitally recorded on the card. Both the compact disc and the Laser-Card are very rugged, and not affected by electro-magnetic fields, x-rays, or surface scratching. Once music or data is written to the recording surface, it cannot be erased.

Several million cards are now used in Europe. England is pioneering the Laser-Card for delivering and monitoring medical services. Italy uses the Laser-Card to identify authorized access to assets held by financial institutions. Baylor University in Texas is piloting the Laser-Card for medical services. The cities of Houston and San Diego are using the Laser OMC in the delivery of health services.

The Ontario (Canada) provincial library system (1400 libraries) is testing the Laser-Card under four separate applications:

1. A patron ID card testing various methods of internal/external photo IDs, bar codes, and encoded passwords.
2. A service access and debit card for patrons using a "network juke-box" system to access campus services.
3. A data base storage system.
4. A library catalog for special collection libraries and for libraries located in small communities.

The data that can be stored on the Laser-Card is much greater than what can be stored on the Magnetic Stripe card or the Chip Smart card. A Mag-stripe card can hold only about 1,500 characters of information. The Chip-Card can hold 64,000 bits (8,000 characters) of information. The Laser-Card can hold 4,100,000 characters of information. These capacities translate into less than one page of type-written information on the Mag-stripe card, 4 type-written pages of information on the Chip-Card, and 2,000 type-written pages of information on the Laser-Card.



Delaware "Card-ONE"

The tremendous amount of capacity on the Laser Optical Memory Card, provides enough space to both integrate the delivery of many programs and to provide total security. The large capacity also results in savings due to economies of scale. To wit, the cost per character on a Chip Card is 1,024 times greater than the Laser-Card. The cost per character on the Magnetic Stripe card is 546 times that of the Laser-Card.

A Technology with Diversity and Security

This tremendous capacity of the Laser-Card is significant for two reasons:

1. There is capacity to use the card for **many programs**, thereby spreading the cost and making the technology **more cost-effective**.
2. Part of the capacity can be used to improve the data integrity and security of the card through such possibilities as digitized signatures, thumb-prints, voice prints or pictures making it **virtually impossible for anyone but the card owner to use the card**.

The Laser-Card utilizes WORM (Write Once Read Many) technology. Information entered into the card can be amended but not altered nor erased. WORM provides for a complete, practically indestructible history (audit trail) of all activity entered on the card. Unlike the Magnetic Stripe and the Chip-Card, the Laser-Card is impervious to data loss from the effects of static electricity. Any unauthorized attempt to enter or modify information results in an automatic disabling of the card's functional capacity, making it useless for accessing any benefits left on the card.

Additionally, the Laser Optical Memory Card has "Calendar-Releasing" capacity. This means benefits on the card can be turned on or turned off based on programmed dates within the card itself. Examples of potential uses are:

- ◆ Cash and food stamps can be turned on automatically on prescribed dates and accumulated until redeemed.
- ◆ WIC benefits can be turned on automatically and then also be turned off automatically upon reaching expiration date. Unused expired benefits would no longer be redeemable by the holder.
- ◆ Child immunizations records can be automatically displayed with an programmed alert for expired protection.
- ◆ Benefits issued through the card could be integrated with other programs, i.e., the card can be made to check the status of whether a positive condition of client compliance exists prior to releasing benefits.

Unlike the Chip-Card, the Laser-Card dimensions are such that they can fit in the Mag-stripe readers. The Delaware plan is to include a Mag-stripe on the card so that it can be used in existing ATM machines to issue cash benefits. Until banks move to the Laser-Card to reduce their own liability for fraud and abuse of credit and debit cards (an area that is getting a lot of discussion recently), the Laser-Card when used in an ATM machine will not be able to take advantage of the potential for things like signature verification or thumb-print verification to improve security. This will not, however, negate the use of those security features for Food Stamp, WIC, and Medicaid redemptions.

Delaware "Card-ONE"

Laser-Card Technology Can Enable Cost-Effectiveness Through Multi-Program Use

The Laser-Card's large memory capacity provides the potential for storing a life-time worth of information, including:

- ◆ Complete history of AFDC, FS, WIC transactions
- ◆ Complete individual and family medical history
- ◆ Complete history of immunizations
- ◆ Pharmaceutical records of each prescription issued
- ◆ Unemployment benefits, Section 8 Housing, Social Security, etc.
- ◆ Radiology records with x-ray images (a large number of x-ray images could fill the card)

Obviously, with the potential to store this amount of data and support the vast array of programs that the capacity enables, the cost of the card and its supporting infrastructure can be amortized over more programs and greatly contribute to the cost-effectiveness of the technology. This is particularly important for a state like Delaware where the number of participants in any single program is not sufficient to employ other types of electronic benefit transfer technologies cost-effectively.

It is anticipated that the card would take one of two possible directions after its implementation in the Department of Health and Social Services. It could become a social services and health card that would be used not only for public-sector programs but also for private-sector social service and health programs. In this case the public-private partnership already forged with the Nemours Foundation would be a likely first use within the private sector.

Another possible direction is for the card to encompass other governmental programs. An individual's card could contain the information necessary to interact with other agencies of Delaware state government. It could for example also be the card-holder's automobile license and contain his driving record. It could be used to issue unemployment benefits, serve as a library card, or contain pre-paid toll fees for using the state's toll roads.

Each of these directions will be explored in greater detail as the State's experience with this technology develops. The initial efforts will be to prove the utility in delivering Delaware Health and Social Services benefits.

Since the card will also include a Mag-stripe, a possible second phase of the project will be to issue AFDC and GA benefits through the existing ATM networks.

Delaware "Card-ONE"

Laser-Card Technology Can Virtually Eliminate Unauthorized Use

The Laser-Card can incorporate the standard Personal Identification Number (PIN) and the external photograph ID. However, the Laser-Card also provides advanced technology for preventing fraud and abuse. When implemented, this technology makes it virtually impossible for unauthorized use.

First, a few of the many types of personal ID not available on the Magnetic Stripe nor the Chip Smart cards:

- ◆ A color, unalterable color photograph ID---digitally encoded into the card for display on a computer CRT at time of use.
- ◆ A digitally encoded signature for an automated and or visual comparison of the signature of the user.
- ◆ A thumb or finger print digitally encoded into the card for an automated comparison of the print of the card user.

Such personal ID's can be universally implemented on a population-wide basis or restricted to card holders having a pattern of card loss, theft, and/or suspected abuse. The Laser-Card addresses the question of how to issue benefits to suspected abusers without having to revert to a two issuance system, namely electronic and paper. Another viable opportunity, under a State-wide demonstration, is to implement variable ID options in selected test areas for comparison with cards having no ID requirements and standard PINs in control areas. We believe such tests and controls, in a State-wide project, provide excellent opportunity, in a real world setting, to evaluate the margins of effectiveness and costs of ID options in controlling fraud and abuse.

Second, the use of the Universal Product Code (UPC), used on products eligible under the WIC, Food Stamp, and many Medicaid services, encoded into the card enhances the correct delivery of benefits. By issuing and redeeming benefits by UPC, agencies can assure recipient purchases and vendor payments are based on exact program specifications. This feature is not available on the Magnetic Stripe card.

Third, there is an available feature of a periodic, perhaps monthly, access code provided to the recipient requiring user interaction to download the benefits from a Central Data Base. This access code, which is in addition to the PIN, is provided to the recipient separate from automated systems. For example, delivering the access code via the mail could verify residency requirements.

The Laser-Card and Regulation E

A major concern to States involved with EBT is the impact of Regulation E requirements on EBT programs. Regulation E is established by the Federal Reserve Board to provide "consumer asset account" rights and protection in commercial credit and debit cards funds transactions. A major feature of Regulation E is that it limits card holder responsibility for unauthorized use of a lost or stolen credit/debit card, provided its loss is reported in a timely manner. When a card is reported as missing within two working days, the card holder's risk is limited to the first \$50 of unauthorized charges and cash withdrawals with the liability of risk in excess of \$50 assigned to the card issuer.

Delaware "Card-ONE"

Until recently EBT was exempt from Regulation E. This exempt status placed all risk for unauthorized benefit card usage on the card holder. However, effective March 1, 1994, the Federal Reserve Board placed EBT under the Regulation. The inclusion of EBT under Regulation E transferred substantial liability for lost and misused benefits from the client to the State agency issuing the EBT card. Many states, including Maryland, have indicated that without some relief from these risks, their EBT programs may be in danger.

At the same time the national direction is not a matter of if states will use EBT, but a matter of when states will use EBT:

1. The U.S. Department of Agriculture, Food Nutrition Service is ready to issue a policy requiring all states to be getting into EBT by 1996.
2. Senate Agriculture Committee Chair Patrick Leahy (D-VT) recently introduced a bill "The Food Stamp Fraud Reduction Act of 1993"(S. 1646) to mandate nearly universal food stamp electronic benefit transfer within three years.
3. Vice-President Gore's National EBT Task Force is actively pursuing the use of EBT to improve the delivery of all federally funded programs.
4. Responsible government managers are moving to EBT in response to taxpayers' demands to increase convenience, efficiency, and integrity in delivering government services.

The inclusion of Regulation E is an "Unfunded Federal Mandate." A recent U.S. Department of the Treasury nation-wide study, "Implications of Regulation E in Electronic Benefit Transfer Programs", determined that Regulation E could cost states an additional \$827.6 million a year in benefit losses and investigation costs. Neither the Federal Reserve Board nor federal program sponsors are willing to help fund these additional costs.

Using the data developed in the Treasury's study, if Delaware were to use the standard Magnetic Stripe card, it is estimated Regulation E will cost Delaware an additional \$1.1 to \$1.9 million a year, **however**, these additional Regulation E liabilities can be largely avoided by the use of Delaware Card-ONE technology.

There is a legitimate cause for concern. Magnetic Stripe or Chip Smart card access to ATM and POS benefits is controlled by the use of the Personal Identification Number (PIN). EBT states are justifiably worried that their clients will somehow compromise the PIN in a way that the EBT card can be used in an unauthorized way, with the liability to replace the lost benefits assigned to the states.

Given the pressures on states to implement EBT and given the unacceptable liability of Regulation E on EBT, it is clear that states need to adapt those EBT technologies that enhance efficiency and minimize liability. The *Delaware "Card-ONE"* is such a technology. First, the Laser-Card, using the potential security features discussed previously, virtually eliminates benefit loss due to neglect, abuse, or fraud. Second, there is good argument that *Delaware "Card-ONE's"* unique method of delivering benefits does not fall under term "consumer asset account" as defined by Regulation E.

Clinton Presidential Records Digital Records Marker

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This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

News Clips

Divider Title: _____

The News Journal
A Gannett newspaper

Opinion

OUR VIEW

COMPUTERIZED BENEFITS

Benefit cards could make life easier and fraud much harder

WHERE WE STAND

Issuing credit card-type benefit identifications would remove the inconvenience and negative stigma of cashing food stamps in markets.

It is not a new idea. Maryland and New Jersey have been doing it for a couple of years — issuing special benefits credit cards to those on government assistance programs.

Delaware is seeking federal approval, and about \$100,000, for a pilot program in Kent County

next year.

In this age of computerized everything, the idea is actually very simple. Rather than filling out reams of paper to qualify folks for food stamps and other basic assistance, a credit card would be issued. Those on general assistance or AFDC could also access their monthly allotments and receive cash instead of checks.

Such a program would not only coordinate statewide services more efficiently, it would clearly cut down on the amount of fraud by those who illegally sell and buy food stamps, which has increased recently.

More important, it would do wonders for the dignity of those who are on benefit programs.

If the experiment is successful in Kent County, it would then be tested in New Castle and Sussex counties. Permanent cards could be issued in 1997 and it would be called Delaware Care-ONE. The lengthy period for approval is because Delaware wants to use the latest laser-type technology on the cards.

We hope Delaware and the U.S. Department of Agriculture move quicker than that on the request. For the Department of Health and Social Service and Secretary Carmen R. Nazario it is a win-win program.

Monday, Nov. 22.

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Delaware



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Downstate Dela.

Card plan could slash welfare paperwork

By **Martha Simpson**
Staff writer

DOVER — It's the size of a credit card, shines like the surface of a compact disc, and could eliminate public assistance paperwork altogether.

Dubbed Delaware Card-ONE, the card is an experiment brewing in a laboratory of the Department of Health and Social Services and could revolutionize the delivery of public assistance programs, said Wayne R. Stultz Jr., project manager for the card.

"We've known for a few years that this is a more efficient and convenient way for clients to use their benefits," he said. "We're also seeing a national trend coming up where an electronic benefits transfer will be a common process."

The card can store up to 2,000 typed pages of information electronically and would carry benefits such as food stamps, money distributed through the Women, Infants and Children program and health benefits, he said.

Card users would present their cards at the grocery store checkout line, where state-provided computer equipment would scan the electronic surface and call up the amount of benefits they have, Mr. Stultz said. The cashier would then deduct benefits automatically at the register instead of redeeming food stamps or vouchers, he said.

Public assistance clients could also use the cards in automatic teller machines, he added.

"There's a greater degree of security with this kind of card, but if a person went to an ATM at night, he or she would probably face the same security issues that anyone with a regular card would," Mr. Stultz said.

The department began considering the new system in October 1992 at the urging of then-Health and Social Services Secretary Thomas P. Eichler. Secretary Carmen R. Nazario offered continued support when she arrived in April.

"I've supported this concept for a long time because it offers much more dignity and respect for people who take advantage of social services," she said.

The General Assembly in June adopted a resolution encouraging the department to follow through with its proposal. The department plans to spend \$100,000 on a feasibility study for the project, Mr. Stultz said.

The department is eyeing April 1995 as a starting date for an experimental program in Kent County and would offer the card to New Castle and Sussex county residents the following year, Mr. Stultz said. The full program would take hold in 1997, he said.

"There are a lot of possibilities. You could put an entire family's benefits on one card," he said.

Bu SOME PROBLEMS WITH MAG-STRIP

Automated teller machine fraud grows, and information is the key Now, thieves pull databank jobs

From staff and wire reports

It's like a script from an underworld mastermind's "Mission: Impossible" high-tech thieves install a phony automated teller machine at a suburban Connecticut mall, steal data from user cards and blitz bank accounts nationwide.

Or how about this: Crooks in New Yorkfurtively videotape ATM users as they punch in their secret access codes. The videotapers use the information to make cash withdrawals.

Then there's the con artist in Fairfax County, Va., who posed as a bank manager, duped bank-card theft victims into revealing confidential information about their codes, and used it to steal even more of their money.

These are some recent examples of headline-grabbing cases that have focused attention on the safety and security of the nation's 67,000 ATMs, one of the most popular ways to get cash when you need it.

Sophisticated schemes

ATMs have been an attractive target for robbers ever since they were introduced two decades ago. But the threat of physical assault on users has been overshadowed by nonviolent, more sophisticated thievery, hatched in some extremely clever criminal brains.

"Bankers are naturally concerned," said Boris F. Melnikoff, an Atlanta bank executive who advises the American Bankers Association on security issues. "It's been an eye-opener to the industry, to say the least."

But Paula Kramer, spokeswoman for Philadelphia-based Transactions Processing Inc., said banks have worried about electronic security ever since ATMs came into common use. It's the public, she said, whose consciousness of electronic fraud is rising.

Bellevue-based Money Access Service Inc., which operates the MAC card network, has sent senior officials to study the Connecticut case, spokesman Joe Shallow said.

Looting databanks

Industry experts insist that ATM fraud is still relatively rare — with losses minuscule compared with those of the credit-card industry.

That's partly because credit-card companies still send "live," ready-to-use cards through the mail, said Kenneth H. Smiley Jr., president of Finsecor Inc., a Delaware County, Pa., bank security firm.

So many of those cards are stolen from the Postal Service that both Visa and MasterCard have resorted to private delivery services.

But most banks now prefer to give ATM cards out in person, Smiley said. Users type their own secret numbers into bank computers. Banks don't want to "your number," he said. "Only the number."

That's why thieves try to break into databanks, in hopes of looting and using names of accounts.

Some safeguards for protecting against ATM-related losses:

- Select your personal identification number carefully. Don't use obvious personal identification numbers such as birthdays or the first few digits of a driver's license or home telephone number. They're often found in wallets and purses and usually the first to be lined by ATM-using thieves.
- Keep your PIN secret. If you don't have the number memorized, try to put it in a safe place outside your wallet or purse. Never write it on the ATM card.
- Take precautions before using an ATM. Don't start a transaction if you feel uncomfortable with your surroundings. Suspicious individuals hanging around a machine, or spotted with binoculars or video cameras nearby should be reported to authorities.
- Take precautions after using an ATM. That means remembering to take your card with you and properly disposing of the transaction receipt later on. Some clever crooks have been able to gain access to an ATM by using the account number found on the receipt.
- Keep careful watch of your bank statement. Unauthorized ATM transactions should be reported to the bank as soon as possible to limit your potential liabilities. A lost or stolen bank card also should be reported at once.

In general, experts say average bank customers, especially those gearing up for some heavy ATM use this summer, have little to worry about as long as they guard their personal identification numbers, or PINs, and take proper precautions when using a bank machine.

"I characterize the Connecticut incident as a fluke. The chances of that happening again are very, very small," said Ronald H. Reed, senior vice president for Plus Systems Inc. in Denver, one of the nation's largest ATM networks.

Sean Kennedy, president of the Electronic Funds Transfer Association, a trade group in Herndon, Va., agreed.

"There isn't much ATM fraud right now that people are aware of. There's probably a potential for a problem, but in actual practice it's a widespread, industrywide problem," he said.

Statistics on ATM-related losses are

Under the Electronic Funds Transfer Act of 1978, ATM customers are liable for the following in case of unauthorized transactions:

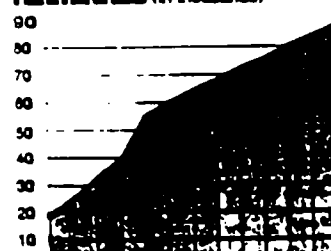
- The first \$50 in losses if they notify the bank within two business days of the disappearance of their ATM card.
- Up to \$500 if they fail to meet the two-day limit, but only if the bank can prove they knew of the card's loss or theft and failed to report it.
- The entire account and credit line potentially could be wiped out if the bank isn't notified within 60 days of the date it mails out the monthly statement that shows the first unauthorized withdrawal.

The News Journal, AP Wirephoto

Do-it-yourself banking

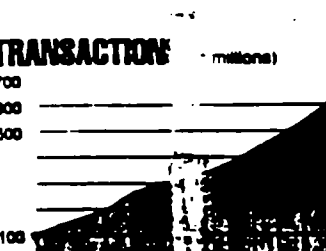
The explosive growth in automated teller machines has revolutionized consumer banking. But it's also viewed as a potentially fat target for criminals.

TERMINALS (in thousands)



from broken armor code-cracking computers to robbers for hire.

TRANSACTION (in millions)



hard to come by. In fact, there's no central tracking system for the ATM networks, mainly because a reported theft is relatively small, totaling under \$1,000.

In many cases, they say, it's committed by a relative or companion bank customer.

\$65,000 in one month

Even in the Connecticut authorities are calling it one of the ingenious frauds, the total take considered well below what thieves run up from each stolen or counterfeit card.

By the end of May, \$65,000 had been stolen in about one month's time from several accounts using ATMs in V North Carolina, Georgia, Florida, land and New York, said special agent Dan Marchitello, heading the investigation of the Connecticut fraud.

"It was one of the most sophisticated, high-tech seen," he said.

The bogus ATM temporarily set at Manchester, Conn., but apologetic receipts for transactions were possible, all the while the PINs of the thieves were being used.

The thieves used the PINs of the victims — also

ATM: High-tech thieves hit databanks

Q1

counterfeit cards to gain access to the accounts.

But Marchese said the widespread publicity surrounding the case has helped limit losses.

People who had gone to the money ATM machine didn't wait until their accounts were compromised to notify their banks. And the banks right away blocked the accounts and issued new cards," he said.

Meinikoff said his bank, Wachovia Corp., confiscated at least one of the counterfeit cards at an Atlanta branch.

Financial institutions have built a number of anti-crime devices into the ATM system to prevent customers from seeing their savings disappear, such as placing daily limits on the amount of an ATM withdrawal or notifying customers if their ATM activity deviates from an established pattern.

Customers liable for \$50

Although financial institutions

usually absorb the bank customers are legally liable for only the first \$50 in losses as long as they notify their bank within two business days of the loss of their ATM card.

But they could conceivably lose their entire account if the bank isn't notified within 60 days from the time it mails the monthly statement that shows the first unauthorized withdrawal.

Until recently, the main concerns in ATM security were in preventing muggings of bank customers. Several institutions have installed elaborate alarm systems, while at least two states — New York and California — have written laws mandating ATM safety measure.

The industry also has spent millions of dollars developing encryption systems that scramble the data traveling across the wire each time a customer uses an ATM.

Computers in
your wallet

MANAGEMENT

Smart Cards and the National Agenda

Smart cards are already a part of the international landscape. Their advantages are causing state and local government to take notice.

WASHINGTON, D.C. — Stephen Kindell, in the January 19 issue of *Finance World*,

cited smart cards as one of nine key technologies the Clinton administration should give special attention to in its quest to update the nation's technology policy. Kindell, who interviewed MIS experts from establishments such as Harvard, DuPont, and Carnegie Mellon, concludes that smart cards "can be used for anything." The fact is, while relatively unknown to many, these *computers-in-your-wallet* have already been successfully tested within a variety of arenas important to the Clinton administration: health care, banking, job training, and government subsidy programs, including electronic benefits transfer (EBT).

Put simply, the smart card is a computer. It differs from the normal concept of a computer only in that it is packaged to look like a credit card, making it portable and inexpensive. Unlike magnetic stripe bank cards, smart cards contain an integrated microcomputer chip, providing it with significant memory storage and processing power. The result is a portable, updateable database system that customers themselves can carry.

Unlike magnetic stripe cards, smart cards allow for total offline transaction processing. Information can be read from, and written to, cards at any location with an inexpensive smart card reader. Dependence on expensive online centralized systems with their single points of failure is eliminated. Data on the smart card can be immediately updated using the processing applications on the card itself. As such, industry analysts believe that smart cards will eventually surpass the popularity of magnetic stripe cards.

While smart cards have received relatively little attention in the U.S.,

they are actually a stable technology proven worldwide. In France, for instance, more than 6 million smart cards are used with telephone, medical, television, and transportation systems. Likewise, Germany and the UK are currently distributing millions of smart cards for use with their public phone system while Japan, Thailand, and Singapore have made smart cards a national priority.

system by providing peanut farmers and government processors with smart cards to act as source data capture and bookkeeping mediums. The program has reportedly saved the Department of Agriculture over two dollars for every dollar it has expended for the system.

Smart card systems have repeatedly improved efficiency and saved money for companies that have prop-

and then require it to be manually keyed into one or more centralized systems. By electronically capturing data at its source and automatically supplying it to target systems in machine readable format, smart cards eliminate the cost of recording data twice as well as the cost of key entry errors. And because the smart card is a processing computer, source data captured can be validated for errors on the spot, eliminating the need for later error correction.

REDUCES PROCESSING COSTS

Since the smart card is a functional database system, complete with its own computing power, data processing occur without the expense and potential difficulty of connecting to an online central database. The cardholder's database can be read adjusted on the spot via an offline smart card reader. Transactions can be collected and posted to the centralized system in a batch during the night at far less expense than the online, prime-time, one-at-a-time transaction processing now associated with magnetic stripe credit and debit cards.

For example, Natrona County, Wyo., has become a national leader in Electronic Benefits Transfer (EBT) by utilizing smart cards to



Smart cards are being used in France and other countries for an increasingly wide range of functions.

Photo: Smart Technology Press Office

To date, the largest smart card application in North America is the U.S. Department of Agriculture's Peanut Buying Point Project, implemented for the government in 1987 by Applied Systems Institute Inc. (ASI), a Washington, D.C.-based developer of smart card technology. The program successfully automated the government's pricing and quota

erily implemented them, while, at the same time, reducing schedule and cost risks and improving system security.

DATA COLLECTION AND ENTRY

Smart cards are powerful source data capture tools that save significant time and money over methods that commit original data to paper

ate electronic payments for customers purchasing groceries subsidized by the Special Supplemental Food Program for Women, Infants, and Children (WIC). In the pilot system, designed and implemented by ASI, more than seven hundred infants in Natrona County use cards—called WYO Cards—instead of paper vouchers to purchase WIC-approved foods.

CardTech, the nation's leading conference on card technologies, gave its *Outstanding Smart Card Application Award* for 1991 to the WYO Card. The system has been successful for several reasons. First, it has helped to ensure women and children receive the full nutritional

In France, more than 6 million smart cards are used with telephone, medical, television, and transportation systems.

MANAGEMENT

SMART CARDS

Continued from page 36

benefits afforded by WIC by providing participants access to participating grocery stores as often as they wish, up to the limit of their benefit. Previously, participants could be deprived of nutritional benefits afforded by WIC because they could not partially redeem a paper voucher; they had to use it all at once. Second, it made the WIC program more efficient. Previously,

each WIC participant in a given family was issued a separate check. Under the new system, benefits for all WIC family members are combined on a single smart card, decreasing the time required to outlay and collect WIC benefits.

Equally important, by minimizing the use of online telecommunications and data processing, WYO Cards save money and increase system reliability. Communications or central computer problems do not interfere with the WIC cardholder's ability to receive

service. This is especially important in large rural areas and other regions where telephone service can be a concern. Pilot data suggests that smart cards will save Wyoming 25 percent in bank transaction fees. As such, Wyoming is currently planning to expand the WYO Card program to six Wyoming counties and include electronic Food Stamp and WIC benefits on the same card.

UNIFIES MULTIPLE SYSTEMS

Unlike magnetic stripe cards,

smart cards can be programmed to unify multiple applications and services with secured protection for each application. Employee smart cards, for example, could contain emergency medical information about employees, serve as their means of gaining access to the building where they work and act as a debit card for use in company vending machines. Unifying multiple systems in this way translates into reduced expenses through cost sharing and the reduction or elimination of operational redundancies.

In their popular book *Reinventing Government*, David Osborne and Ted Gaebler describe how the Michigan state government utilized smart cards to repair an out of control job training program that consisted of more than 70 different job training and adult education programs and cost more than \$800 million a year to run. Osborne and Gaebler describe the state's system for managing the program, "In effect, a nonsystem: 70 categorical pots of money with no coherence, no user-friendliness, little performance data, and little management. Most programs were invisible to the average citizen. Most were hard to access." Michigan's solution, in concert with other initiatives, was the implementation of a smart card system.

Deemed the Michigan Opportunity Card, the state set out to deliver smart cards to every adult in Michigan. The idea was to capture source client data once in the card—and then snare that data and any subsequent updates with other agencies via the card itself. The cards carried basic information, or common data elements, about the holder that any agency involved with training, education, or employment might need to determine the cardholder's eligibility for programs and appropriate program placement. They were updated as participants completed training or secured employment.

[Ed. Note: The Michigan Opportunity Card — first introduced by Governor James J. Blanchard in his 1988 State of the State message — is no longer in existence. The program fell victim to budget constraints and cuts in administration. However, according to a representative of ASI, the WYO Card program is expanding, and an RFP has issued to implement WIC and stamps on the same card.]

***This Certificate is awarded on behalf of Delaware
Infants and Toddlers with disabilities and
developmental delays and Their Families***

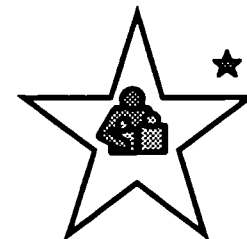
***In Recognition and Appreciation
of the outstanding work done by***

Kathryn Way

***Interagency Coordinating Council
Member***

Nancy Wilson
Nancy Wilson,
Part H Coordinator

September 29, 1993



Part H
Birth to 3