Food and Nutrition Service

The Integrity Profile (TIP) Report
Fiscal Year 2002

Background

The Integrity Profile (TIP) is an annual report that identifies: the types of violations that occur in the retail, direct distribution, and home delivery systems of the Special Supplemental Nutrition Program for Women, Infants and Children (WIC); the safeguards that exist to ensure compliance with program rules; and State agency actions to prevent, detect and eliminate fraud, waste, and abuse. The retail food delivery system is the focus of this report, because this system is considered to be most vulnerable to fraud and abuse and loss of program funds.

Introduction

The FY 2002 TIP report provides information on all vendors authorized throughout the fiscal year that provide food benefits to WIC participants through retail, direct distribution, and home food delivery systems. Eighty-seven WIC State agencies are included in the FY 2002 TIP report, which includes 50 geographic State agencies, 32 Indian Tribal Organizations (ITOs), American Samoa, Guam, Puerto Rico, Virgin Islands and the District of Columbia.[1]

WIC Food Delivery System Challenges

The WIC Program provides supplemental foods, health care referrals, and nutrition education to low-income pregnant, breastfeeding and postpartum women, infants, and children up to age 5. Each WIC participant receives a food prescription tailored to his or her particular health needs, which may be used to obtain supplemental foods in most cases at authorized retail grocery stores, defined as "vendors" in the WIC Program. The supplemental foods prescribed by WIC are high in nutrients found to be lacking in a participant's diet, which make the WIC foods vital to improving the participant's health, well-being, growth and development. Additionally, because program funds are limited, reasonable costs must be paid for supplemental foods to maximize the number of participants that can receive benefits.

[1] Many of the vendors authorized by the ITOs are also authorized by the geographic State agency in which they reside. Therefore, in this report there is the potential for duplicate data and inflated numbers where activities regarding these vendors are being reported by both State agencies. New data elements are currently being proposed by FNS that will eliminate future duplication of data reported by State agencies.

Therefore, two important program integrity goals in WIC are to ensure that:

1) Participants receive the correct supplemental foods, and
2) WIC is charged a fair price for foods.

Vendors play an important role in ensuring that these program goals are achieved. Although the overwhelming majority of vendors follow program requirements, fraud, abuse, and poor management are problems among some vendors. In July 2001, FNS issued a report from a study of WIC vendor violations. This study, the 1998 WIC Vendor Management Study, was designed to examine, at a national level, the prevalence and magnitude of overcharging and certain procedural violations by WIC vendors. A random sample of 1,565 vendors was used. Each of the 1,565 vendors received three compliance buys over a 3-month period. During the compliance buys, an average of 8.7% of all vendors overcharged. When vendors were examined for frequency of overcharges, 81.9% never overcharged, 12.4% overcharged only once, 4.2% overcharged twice, and 1.5% overcharged three times. Other violations found during the study include: 35.5% of all WIC vendors failed to follow proper countersignature procedures, 5.5% were not able to fill the food prescription because they did not carry at least one of the WIC food items, and 0.5% issued rainchecks or asked participants to pay cash for WIC food items in addition to the WIC food instruments.

This report includes findings from TIP data analysis by topic. Where appropriate, State agency policy information was used from the FY 2002 State Agency Profile of Integrity Practices and Procedures (PIPP) report. PIPP includes information on vendor selection, limitation and authorization criteria; high-risk identification systems; pre-and post-payment edit systems; food instruments; sanctions; and vendor relations and compliance procedures. The appendices (see page 15) provide State-level information.

Fraud Prevention Through Program Design

Vendor Selection and Authorization

As with any large Federal program, the WIC Program experiences challenges in the areas of fraud and abuse. However, the vendor management component of the Program is designed with safeguards that help to reduce the possibility of fraud and abuse. Some of these safeguards are listed below.

- Each WIC vendor must enter into a written agreement with the State agency. Vendor agreements specify program requirements, vendor responsibilities, and vendor violations that may result in sanctions.

- The majority of State agencies (98%) visit both vendor applicants and currently authorized vendors to verify information submitted during the application/authorization process.

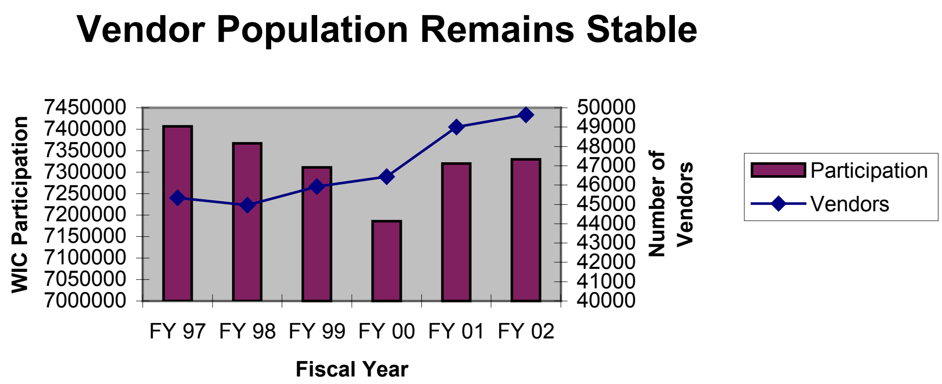
- Not every store that applies for vendor authorization is selected. Stores must meet or exceed the State agency's vendor selection criteria to be selected and be necessary to assure appropriate access to food benefits by WIC participants. In FY 2002, 1,004 stores were denied vendor authorization because they failed to meet State agency selection criteria.

- As a cost-containment measure, most State agencies require stores to compete for vendor authorization based on the prices they charge for supplemental foods. In FY 2002, competitive pricing was included as a selection criterion by 89% of all State agencies. Eighty-seven percent of the State agencies reported that they monitor vendor redemptions to ensure that the prices charged are consistent with the price lists submitted with vendor applications.

- By program regulations, the duration of vendor agreements cannot exceed three years. When a vendor's agreement expires, the vendor must reapply and be selected again to continue authorization. In some State agencies, shorter agreement periods are set for new vendors and vendors with a history of program violations.

- State agencies must authorize an appropriate number and distribution of vendors to ensure adequate participant access to supplemental foods and ensure effective State agency management, oversight, and review of authorized vendors.

- In 1989 (the first report year these data were collected) the number of authorized vendors was 47,241 and the average number of participants per vendor was 91. In 2002, the number of authorized vendors was 49,641 and the average number of participants per vendor was 151.



Note: Participation levels dropped by 120,000 in fiscal year 2000.

Most State agencies (61%) have a system for selecting the number of vendors they authorize. Methods used to select vendors include: (1) price limitations set by the State agency; (2) ratio of the number of participants to vendors; (3) competitive bidding for vendor slots; (4) an absolute or fixed limit on the number of vendors; (5) minimum stock requirements; (6) convenient store location; and (7) condition of the store. Approximately 39% of State agencies use a statewide system to select the number of vendors authorized, and 21% of State agencies select vendors based on geographic areas within the State. These are practices encouraged by FNS to ensure effective program oversight and mitigate the chances of fraud and abuse.

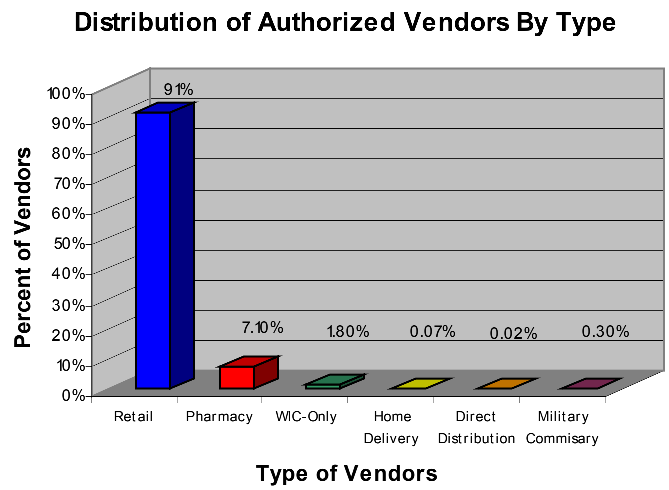
- State agencies may operate three types of food delivery systems – retail, home delivery and direct distribution.

    - Retail food delivery systems are systems in which participants, parents or caretakers of infant and child participants, and proxies obtain authorized supplemental foods by submitting a food instrument to an authorized retail vendor.

    - Home food delivery systems are systems in which authorized supplemental foods are delivered to the participant's home.

    - Direct distribution food delivery systems are systems in which participants, parents or caretakers of infant or child participants, or proxies pick up authorized supplemental foods from storage facilities operated by the State agency or its local agencies.

- The most prevalent type of food delivery system is retail. Ninety-one percent of all WIC vendors are retail grocery stores.



Training

Vendor training is an important program integrity objective. When cashiers are properly trained on which foods are WIC-approved and the proper procedures for transacting WIC food instruments, fewer errors are likely to occur. Even the manner in which food instruments are designed can have an effect on cashier error. State agencies can, and do, work closely with representatives from the retailer community in resolving problems that cause errors and in providing training on program requirements.

Vendors generally receive vendor training annually and interactive vendor training on a periodic basis. Vendor training includes instruction on the purpose of the Program, the supplemental foods authorized by the State agency, the minimum varieties and quantities of authorized supplemental foods that must be stocked by vendors, the procedures for transacting and redeeming food instruments, the vendor sanction system, the vendor complaint process, the claims procedures, and any changes to program requirements since the last training. Vendor training is provided to store owners, managers, and/or cashiers through on-site visits, group training sessions, newsletters, and videos. In some States, vendor training includes written tests or simulated WIC transactions that verify the level of understanding of program requirements.

Interactive training is a training format that provides an opportunity for questions and answers. Interactive training includes on-site cashier training, off-site classroom-style train-the-trainer or manager training.

- In FY 2002, 68% of all vendors (33,743 vendors) received interactive training[2] on _all_ of the following basic subjects:

  - The purpose of the WIC Program,
  - WIC-approved supplemental foods,
  - WIC food instrument transaction procedures,
  - WIC food instrument redemption procedures,
  - Vendor violations (overcharges, substitutions, trafficking, etc.) and,
  - Vendor sanctions for noncompliance.

[2] Note: Interactive training may include group training conducted off-site at a central location.

Systems to Detect Non-Compliance With Program Rules

Pre-payment and Post-payment Edits

State agencies are required to design and implement a system to review food instruments submitted by vendors for redemption to ensure compliance with price limitations and to detect questionable food instruments, suspected vendor overcharges, and other errors. This review must include a price comparison or other edit to ensure compliance with price limitations and to assist in detecting vendor overcharges; States often set a "Not-to-Exceed" (NTE) maximum payment amount for food instruments. In addition to reviewing food instruments for purchase amounts exceeding the NTE, such review systems must also detect the following errors: purchase price missing, participant parent/caretaker, or proxy signature missing, vendor identification missing, transaction or redemption outside of valid dates; and, as appropriate, altered purchase price. This review must examine all or a representative sample of the food instruments and may be done either before or after the State agency makes payments on the food instruments.

Many State agencies use pre-payment edit systems to review food instruments for errors prior to making payments to vendors. State agencies that use a banking institution to process their food instruments include such pre-payment edits in their banking contracts. In a pre-payment edit system, when a food instrument exceeds the maximum allowed purchase price, the State agency or its banking institution either makes a price adjustment to the food instrument and pays the vendor the adjusted amount or denies payment of the food instrument and returns it to the vendor. Food instruments may also be rejected when the other above-noted errors are detected.

Some State agencies use a post-payment edit system in which they review food instruments for errors after payment has been made to the vendor. In a post-payment system, when an error that affects the payment to the vendor is detected, the State agency will issue a claim against the vendor to recover the funds. In both pre- and post-payment edit systems, vendors are provided with the opportunity to justify or correct errors on food instruments submitted for redemption.

- Most State agencies (79%) review all food instruments for errors and other discrepancies before payment is made to the vendor.

- The most prevalent food instrument edits used by State agencies seek to detect: (1) signature and/or counter signature missing, (2) redemption outside valid dates, (3) altered valid date, and (4) altered purchase price.

Routine Monitoring

Program regulations in effect during the period for this report required State agencies to conduct routine monitoring visits on at least 5 percent of their vendors annually. Routine monitoring is overt, on-site monitoring during which State agency representatives identify themselves to vendor personnel. The specific activities performed during routine monitoring visits vary from State to State, but they generally include the following activities:

- observing food instrument transactions,
- collecting shelf prices,
- checking the quantity and variety of WIC-approved foods on shelves,
- observing the store's sanitary conditions.

Food instruments in the vendor's possession may also be reviewed in order to identify errors.

A total of 15,204 (31%) vendors received routine monitoring visits in FY 2002. Fifty-one State agencies monitored 40% or more of their vendors. (See Table 10 in the appendix.)

- Often vendors are monitored through multiple methods, i.e., compliance buys, routine monitoring visits, and inventory audits. Where routine monitoring was the _only_ State-wide form of vendor monitoring used:

    - ➢ 429 vendors provided unauthorized food items and 100 provided non-food items in exchange for food instruments.

    - ➢ 2,971 vendors committed other program violations not specifically identified in TIP.

High-Risk Vendor Identification and Compliance Investigations

State agencies have a great deal of latitude in how they manage their vendors. In FY 2002, program regulations in effect for this reporting period, required State agencies to have systems in place to identify high-risk vendors and to have the capability to conduct compliance buys. New program regulations that went into effect on December 29, 2000 require State agencies to conduct compliance investigations on a minimum of 5% of the number of vendors authorized by the State agency as of October 1 of each fiscal year. Beginning in FY 2003, each State agency must conduct compliance investigations on all high–risk vendors up to the 5 percent minimum.

The specific criteria used in high-risk vendor identification systems vary from State to State. Generally, high-risk systems flag vendors based on several indicators of possible abuse. Reports identify high-risk vendors based on these indicators, and State agencies conduct compliance investigations on these vendors to determine if they are complying with program requirements. Compliance investigations consist of compliance buys and inventory audits.

During a compliance buy, a representative of the Program poses as a participant, parent or caretaker of an infant or child participant, or proxy, and transacts one or more food instruments to determine whether the vendor is in compliance with program regulations. These undercover compliance buys are generally targeted to vendors who are identified as high-risk, but may be performed on non-high-risk vendors as well.

An inventory audit is an examination of food invoices and other proofs of purchase to determine whether a vendor has purchased sufficient quantities of supplemental foods to provide participants with the quantities of supplemental foods specified on food instruments redeemed by the vendor during a given period. Inventory audits are often conducted when compliance buys would not be effective because the vendor knows his clientele and a compliance investigator would be easily identified.

- In FY 2002, 4,943 vendors were identified as high risk vendors and 44,698 were identified as non-high risk.

- About 8 percent of all vendors nationwide (3,997 vendors) received one or more compliance buys. Of these vendors, 2,840 were high risk vendors and 1,157 were non-high-risk vendors that were investigated as part of the State agency's effort to validate its high-risk vendor identification system.

- Of the 3,997 vendors who received compliance buys, 2,840 (71%) were identified as high-risk vendors.

- In addition to the vendors receiving compliance buys, 33 *unauthorized* stores received one or more compliance buys in two State agencies. These stores were suspected of conspiring with authorized vendors to defraud the WIC Program. Two of these stores accepted food instruments during compliance buys.

- Less than 1% of all vendors (161 vendors) received inventory audits. Inventory audits were conducted in 16 State agencies (See Table 11).

- Where inventory audits were the *only* form of monitoring used, 161 vendors were found to be violating program requirements.

Results of Vendor Monitoring and Compliance Investigation Efforts

The following violations were identified as a result of routine monitoring and compliance investigations:

- 19,306 vendors received one or more routine monitoring visits, compliance buys, and/or inventory audits. Of the 19,306 vendors, 12,862 (67%) had no violations and 6,444 (33%) committed program violations. Of the vendors committing program violations, fifty-seven percent (3,647) committed a single violation, and 43% (2,797) committed multiple violations.

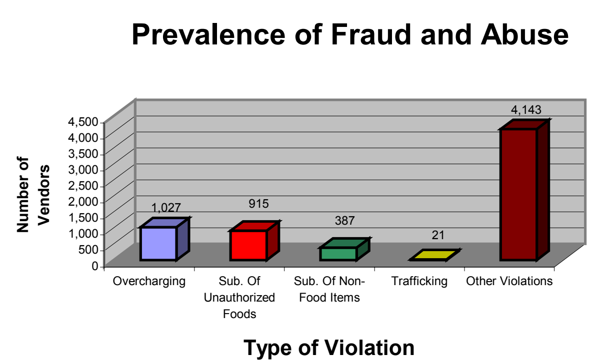
  - 1,027 vendors overcharged.

  - 915 vendors permitted the substitution of unauthorized food items. These violations were reported by 35 of the 87 State agencies.

  - 387 vendors permitted the substitution of non-food items. These violations were reported by 10 State agencies.

  - 21 vendors committed trafficking violations. These violations were reported by 6 State agencies.

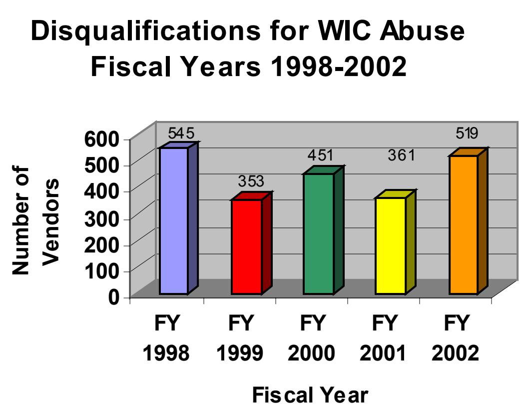
  - 4,143 vendors committed other violations. These other violations were reported by 51 State agencies.



It is important to point out that when a compliance investigation is conducted and a violation is found, disqualification is not always appropriate. Most State agencies conduct compliance buys to provide sufficient evidence of program compliance or noncompliance. It would be incorrect to assume that every vendor who commits a violation during a compliance buy will be disqualified. However, certain types of violations warrant mandatory disqualification following either a single incidence or a pattern of abuse. State agencies must permanently disqualify a vendor convicted of trafficking in food instruments or selling firearms, ammunition, explosives, or controlled substances in exchange for food instruments. State agencies may impose a civil money penalty in lieu of disqualification if disqualification of a vendor would result in inadequate participant access or the vendor had, at the time of the violation, an effective policy and program in effect to prevent trafficking; and the ownership of the vendor was not aware of, did not approve of, and was not involved in the conduct of the violation.

Vendor Sanctions and Administrative Reviews

Vendors that violate program requirements may be subject to sanctions in accordance with Section 246.12(l) of WIC program regulations. Vendor sanctions may include administrative fines, disqualifications, or civil money penalties in lieu of disqualification. Vendors may also be disqualified or receive a civil money penalty based on a FSP disqualification.
A disqualified vendor (who did not receive a permanent disqualification) may reapply after the disqualification period has expired.



Disqualifications for administrative reasons and FSP abuse are not included.

A total of 2,751 vendors received sanctions during FY 2002. Since investigations are not always completed during a fiscal year, this number includes investigations that had not been resolved in FY 2001, in addition to the vendors receiving compliance investigations in FY 2002.

- 519 vendors were disqualified based on WIC Program violations

- 97 vendors were disqualified as a result of FSP sanctions
- 48 vendors were disqualified for administrative reasons
- 3,173 vendors received other sanctions

Program regulations require State agencies to provide vendors with an opportunity to appeal most adverse actions. Each State agency determines the time period a vendor has to appeal a disqualification. This information is included in the disqualification notice to the vendor. However, vendors must be afforded at least 15 days in which to file an appeal. Final action must be taken by the State agency within 90 days. In FY 2002, 423 vendors appealed their sanctions (See table 15). Most administrative review decisions were ruled in the State agency's favor (upheld) rather than in the vendor's favor (overturned).

Results of Vendor Appeals – FY 2002	
Of the Vendors Requesting an Appeal:	
Decision Status of Appeal	Number of Appeals
Upheld*	213
Overturned	49
Pending	162
Withdrawn	0
*State agency decision upheld	

- About 50% of prior year administrative review decisions were ruled in the State agency's favor.[3]

WIC and Food Stamp Program Coordination

There are over three times as many FSP authorized retailers as there are WIC vendors. In FY 2002, there were about 157,000 FSP vendors and about 49,600 WIC vendors. Although the exact figure is unknown, over 75% of WIC vendors are also authorized as FSP vendors. Because the two programs authorize and monitor many of the same vendors, there is an opportunity for coordination between the FSP and WIC State agencies in monitoring retailers/vendors.

For certain serious violations, Federal regulations require that a vendor that is disqualified from one program be disqualified from the other program. The reciprocal disqualification must be for the same length of time, may begin at a later date, and is not subject to administrative or judicial review. The rationale for this requirement is that if a store is committing serious violations in one program it is likely to be violating the other program as well. However, prior to disqualifying a vendor, the State agency must determine if disqualification of the vendor would result in inadequate participant

[3] Source: TIP 2001 Aggregate Data

access. If this is the case, the State agency must impose a civil money penalty in lieu of disqualification.

Some WIC disqualifications are not subject to FSP disqualification. Therefore, not all vendors referred to FSP for reciprocal action will be disqualified from FSP. Many WIC State agencies have implemented information-sharing agreements with FSP whereby information on disqualified vendors is exchanged in order to facilitate reciprocal actions. In FY 2002, the scope of reciprocal actions was as follows:

- 297 vendors were disqualified from WIC and subsequently referred to FSP for reciprocal action
- 243 vendors were disqualified or withdrawn from FSP based on WIC disqualifications or notifications of adverse action
- A number of vendors were disqualified from FSP and subsequently referred to WIC for reciprocal action and disqualified from WIC based on the FSP referrals. However, the specific figures can not be provided in this report due to the fact that some of these disqualifications occurred at the end of the fiscal year and the reciprocal action will not take effect until the next fiscal year.

Types of Authorized WIC Vendors and WIC Business Volume

Authorized vendors may include military commissaries and pharmacies. Authorized pharmacies only provide infant formula, exempt infant formula, or WIC-eligible medical foods. Eighteen State agencies have authorized WIC-only stores. These vendors only stock WIC-approved foods and only accept WIC food instruments.

- About 44,917 vendors were authorized to accept WIC food instruments as of October 1, 2002. New authorizations after October 1 totaled about 5,053. The number of vendors that came off the program during this time period was 2,722.

- The distribution of vendors and their total business volume is shown below:

Vendor Type	Avg. Mo. WIC Redemp. Per Type	Avg. Mo. Redemp. Per Vendor	Number of Vendors	Pct. of All Vendors	Pct. of Total Redemp. Volume
Retail	$524,834,547	$11,659	45,013	90.67	89.79
WIC-only	$53,022,304	$59,242	895	1.80	9.07
Home Delivery	$639,868	$17,774	36	.07	.10
Direct Distribution	$177,906	$12,707	14	.02	.03
Pharmacy	$3,168,789	$1,918	3,534	7.11	.54
Military Commissary	$2,605,826	$17,488	149	.30	.44

Notes: Redemptions were not reported or were reported as zero for 2,674 vendors; therefore, the figures in the above table represent the 46,451 vendors for which redemption data were available.

- Of the total 895 WIC-only vendors nationwide, the majority are located in four States: California (516), Florida (106) Puerto Rico (106) and Texas (81).

WIC/FSP Store Characteristics – Firm Type

Information on WIC/FSP store characteristics by firm type has not been included in TIP reports since FY 1999. FNS has chosen not to do this analysis every fiscal year because the information does not show any major changes between reporting periods. Therefore, this data will only be analyzed once every four years. The information will once again be analyzed in FY 2003 and will be included in the FY 2003 TIP report.

Appendices

Table 1	Vendors Not Selected for Authorization
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