

3.5 Food Benefit Redemption, Settlement and Reconciliation

The Food Benefit, Settlement and Reconciliation functional area covers the redemption of food benefits at the vendor, preparation of vendor payment, and accounting for the disposition of food benefits issued to the participant. In both paper food instrument and EBT environments, it is important to note that the State agency, a bank, or a processor can perform the processing functions. Therefore, to simplify functional descriptions, the term generic “*processor*” is used to cover all the possibilities with the understanding that *the processor* could be the State agency internal data processing unit, a bank that performs processing functions, or an outside processor.

Within a paper food instrument system, the redemption, payment, and settlement of food instruments can vary significantly. Many State agencies use “check systems” in which the food instrument is a check with MICR-encoded data for the food instrument serial number and, optionally, the redemption value. The participant exchanges the check for WIC foods at the vendor, and the vendor submits the check for payment by depositing the check in their bank account and the check is processed through the commercial banking system. Other State agencies use “voucher systems.” In a voucher system, the participant exchanges the voucher for WIC foods at the vendor, and the vendor submits the vouchers to the State agency for payment.

To protect the integrity of the program, the following requirements apply to the transaction of food instruments at the grocery store:

- The participant can redeem only the specific foods and quantities printed on the food instrument or up to the total maximum dollar value for the cash-value voucher benefit for fruits and vegetables, and the selection of foods must meet the State agency’s approved food list (e.g., only specific brands and types of orange juice are approved and orange drink is an unacceptable selection).
- Only the participant named on the food instrument or a designated proxy can redeem the food instrument.
- The vendor must verify the signature (paper environment) or the EBT card PIN must validated (EBT environment).
- The participant can use the food instrument only within the valid dates printed on the food instrument and the vendor must submit the food instrument for payment within a specified time period.

- The cashier must enter the price for the food instrument at the point of sale.
- The vendor cannot alter or change the price entered on the food instrument.
- The price may not exceed a maximum value established by the State agency for valid redemption.
- Only a WIC authorized vendor can redeem food instruments.
- If all foods on the food instrument are not in stock or the maximum value is not purchased, the vendor cannot substitute a “rain check” or cash (i.e., issue change).
- The identity of the vendor redeeming the food instrument, such as the use of an authorized vendor stamp, must be clearly identifiable on the check or voucher.

Regardless of whether a paper or EBT issuance method is used, the cashier must screen for approved foods at the point of sale. Some vendor cash register systems, particularly those supporting WIC EBT transactions, may be able to automatically identify WIC authorized items as part of the UPC scanning process. If the cash register does not support the identification of WIC items, the cashier is responsible for ensuring the participant only purchases approved foods in the quantities prescribed. Some State agencies also require the cashier to record the date of sale on the food instrument.

As previously discussed, there are two methods for dealing with purchase price amounts on food instruments which exceed maximum allowed amounts: prepayment and postpayment. Regarding other requirements for food instruments, such as signature of the participant, transaction within allowed timeframes, or vendor identification, State agencies will typically reject these food instruments. In some instances, State agencies will permit the resubmission of the food instrument (e.g., if the vendor identification number was missing or illegible on the food instrument), the vendor will be allowed to resubmit the food instrument with the vendor identification number clearly shown. In other instances, however, the State agency may not permit resubmission, such as food instruments lacking the participant’s signature or transacted outside of allowed timeframes.

Vendor payment processes vary across State agencies. In some states, payment is made through the state treasurer, where in other states the payment may be made through a banking contractor. Therefore, the discussion of the “Process Vendor Payment” function is addressed in

general terms. Each State agency customizes this function according to its unique requirements; the specific design, timing, and navigation of the individual state WIC IS is dependent upon the payment processes of each state.

For states using EBT, screening for all of the above requirements is automated in *the EBT system*, are performed at the point of sale or EBT host (depending on the technology used) and are not functions of the WIC IS. Because State agencies may be involved in making payments to vendors when using EBT, that functionality has been included as part of WIC IS functionality.

Another important distinction between the paper food instrument system and *the EBT system* occurs in the maintenance of transaction data and reconciliation of benefits. For paper food instrument systems, reconciliation is needed for the food instruments issued when the food instruments are either redeemed or no longer valid. Reconciliation is performed to account for funds expended and ensure that all food instruments have a valid issuance and certification record.

In an EBT environment, benefits are managed by food item Category/Subcategory and units issued. All individual participant benefits within a household are aggregated together into one account. The account (online) or card (offline) balance is debited each time a transaction occurs. The outstanding obligation for estimated redemption values and expenditures for benefits redeemed is based on benefits transmitted to *the EBT system*³⁸ and information returned from *the EBT system* regarding redemptions, adjustments, voids, and expirations. The obligation data will reside in the state fiscal system or fiscal component of the WIC IS.

Reconciliation in the EBT environment involves receiving transaction data and/or reports from *the EBT system* and comparing benefits issued as recorded by the WIC IS to benefits redeemed and/or expired as recorded by *the EBT system*. WIC EBT reconciliation is done first at category/subcategory and unit level and second at dollar level for amounts paid WIC vendors. Because of benefit aggregation, redemptions typically cannot be tracked back to specific participant or benefit issuance, but only tracked at the family/household level. Reconciliation to the participant level is accomplished through a fully auditable aggregation process that demonstrates that the family/household benefits truly reflect the benefits of all participants in that family/household. Reconciliation must also take

³⁸ Note that in an offline system, that there is a host system balance and card balance for each account. The card always has the most up-to-date balance because the host system balance is not updated until the authorized WIC vendor transactions are submitted for payment. At this point, the host balance for the account is updated and synchronized with the card balance.

into account any changes in benefit issuance resulting from household changes or prescription changes. Lastly, some types of exception transactions such as reversals, adjustments, manual vouchers, and voids can impact daily reconciliation totals and should be incorporated into reconciliation processes. Transaction data returned from *the EBT system* can be maintained in the WIC IS for further reporting and monitoring of redemption patterns.

The Food Benefit Redemption, Settlement, and Reconciliation functional area is comprised of the following functions:

- Pay Vendor for Food Instruments Redeemed
 - Compile File of Transaction Data
 - Perform Edits and Authorize Vendor Payment
 - Process Vendor Payment
- Reconcile Food Instruments
 - Retrieve Food Issuance File
 - Retrieve the Food Instruments Redeemed File and Reconcile with Issuance File
 - Reconcile Voided, Expired, and Redeemed but Unissued Food Instruments
- Pay Vendor for Food Benefits Redeemed via EBT
 - Process Vendor Payment
- Reconcile EBT Benefits
 - Retrieve Benefit Issuance File
 - Retrieve Transaction History Data /Reconcile Redeemed, Adjusted, Voided, and Expired Benefits with Issuance File

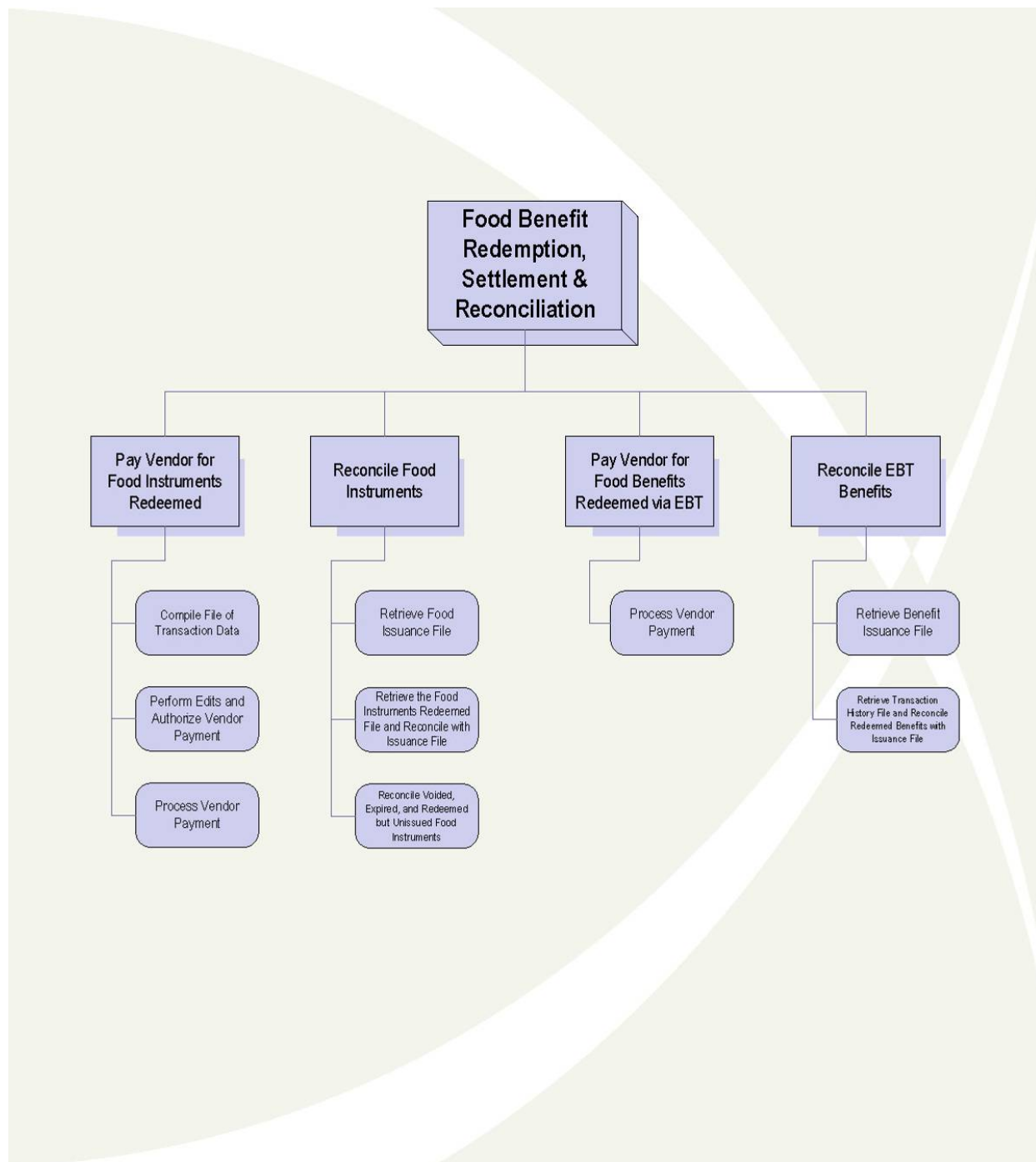


Exhibit 3-5: Functional Decomposition Diagram – Food Benefit Redemption, Settlement and Reconciliation

3.5.1 Pay Vendor for Food Instruments Redeemed

When the participant completes his/her shopping for WIC foods, he/she presents a food instrument to the cashier in exchange for WIC purchases. The cashier reviews the foods to ensure only approved foods are selected, and reviews the food instrument for compliance with WIC Program requirements. If all is correct, the cashier enters the price on the food instrument and the participant signs the food instrument to complete the sale. WIC food instruments are sent³⁹ to the *processor* for payment. In pre-payment edit systems, the food instruments are reviewed prior to payment and in post-payment systems, the food instruments are reviewed after payment.

Following food instrument reviews, funds are transferred to the vendor for properly redeemed food instruments and the vendor is advised of any food instruments that were not paid due to discrepancies. The vendor is given an opportunity to justify payment on the rejected food instruments and to resubmit them for payment.

3.5.1.1 Compile File of Transaction Data

In the paper environment, data resident in the system should be compiled to assist with the vendor payment process. Issuance data is obtained from the IS and includes food instrument serial/identification numbers, issuance dates, maximum values, food instrument active dates (first and last date to spend), as well as void information. Redemption data are obtained from *the processor*, which may be the State or a third party, such as a data entry contractor or a bank. Redemption data include food instrument serial/identification numbers, redemption dates and amounts, and vendor information.

Inputs:

- Food Instrument Identification Number
- Food Instrument Issuance Date
- Food Instrument Maximum Allowed Amount
- Food Instrument Redemption Batch
- Food Instrument Redemption Value
- Food Instrument Use/Disposition Code

³⁹ Food instruments may be batched together and sent to the *processor* in a voucher system or, if a check system is in place, deposited in the vendor's bank account and routed to the *processor* via the federal reserve banking system.

Food Instrument Use/Disposition Date
Food Instrument Valid End Date
Food Instrument Valid Start Date
Food Instrument Vendor Redemption Date
Food Instrument Void Date
Vendor Identification Number

Process:

- Compile issuance data
- Accept input of redemption data from direct data entry or redemption file
- Create a file of the transaction data

Outputs:

Food instrument transaction file

3.5.1.2 Perform Edits and Authorize Vendor Payment

At the point of sale, the cashier checks the foods purchased and food instruments for compliance with program requirements. The food instruments are submitted for payment.

Functions performed by the processor may vary. The processor captures the vendor identification, the redemption value, and the date of redemption, if the food instrument is a negotiable check. The processor performs a visual check for valid dates, alterations, signatures, etc.

Processors that have access to the WIC IS can input redemption data directly. Processors that do not have direct access must generate a redemption file that can be used to update the WIC IS.

The system should support activities related to the performance of food instrument edits and the authorization of vendor payment. These activities include food instrument verification and validation as well as the generation of redemption data to update the WIC IS. The majority of processes related to this function are typically performed outside of the WIC IS by a banking contractor or by the state through another system. Because these processes could possibly be performed within the WIC IS and are part of a larger comprehensive list of WIC processes, they have been included in the FReD.

Inputs:

Food Instrument Identification Number
Food Instrument Issuance Date
Food Instrument Maximum Allowed Amount
Food Instrument Redemption Batch
Food Instrument Redemption Value
Food Instrument Reject Count
Food Instrument Reject Reason Code
Food Instrument Use/Disposition Code
Food Instrument Use/Disposition Date
Food Instrument Valid End Date
Food Instrument Valid Start Date
Food Instrument Vendor Redemption Date
Food Instrument Void Date
Vendor Identification Number
Vendor Peer Group Code

Process:

- Perform edits by comparing food instrument issuance and redemption data in transaction file
- Input the Vendor Identification Number for the redeeming vendor
- Identify food instruments that fail screening and input the Food Instrument Reject Reason
- Prepare an electronic payment detail report for all food instruments authorized for payment
- Prepare a rejection file for all food instruments that failed screening
- Update Food Instrument data store
- Compile Food Instruments Redeemed File

Outputs:

Electronic payment detail report for food instruments paid and food instruments rejected

Implementation Approach

- ▶ Once the data are compiled in electronic form, the processor (which can be the State or a third party) compares the vendor redemption data to WIC Program food instrument issuance data to determine if the food instrument is valid. For those food instruments that pass screening, a payment detail is prepared. For those food instruments that exceed maximum values, are outside valid dates, or have other violations, a rejection report is prepared which identifies each rejected food instrument, the reason for rejection and amount not paid or billed to vendor for repayment.

3.5.1.3 Process Vendor Payment

The system should support the initiation of vendor payment. Typically, a WIC IS does not actually perform the payment processing such as transferring funds to bank accounts or performing automated clearinghouse (ACH) transactions. Additionally, the majority of processes related to this function are typically performed outside of the WIC IS by a banking contractor or by the state through another system. Because these processes are part of a larger comprehensive list of WIC processes, they have been included in the FReD.

Inputs:

Food Instrument Amount Billed to Vendor (postpayment)
Food Instrument Amount Collected From Vendor (postpayment)
Food Instrument Amount Not Paid (prepayment)
Food Instrument Identification Number
Food Instrument Redemption Batch
Food Instrument Redemption Value
Food Instrument Reject Count
Food Instrument Reject Reason Code
Food Instrument Repayment Date
Food Instrument Use/Disposition Code
Food Instrument Use/Disposition Date
Food Instrument Vendor Redemption Date
Vendor Identification Number

Process:

- Transmit transaction file requesting a debit to the State agency bank and credit to the vendor or vendor's bank for the total approved food instrument redemption amount

- Transmit rejection report notice to the vendor for food instruments where funds were withheld and/or a bill
- Transmit rejection report bill to the vendor for rejected food instruments already paid
- Compile all redemptions by issue month and by vendor and store in the Outlay data store

Outputs:

ACH transaction (redemption) file

Screen display or report of food instruments rejected

Notice to vendor of food instrument amounts not paid

Bill to vendor for rejected food instruments repayment

Screen display or report of value of food instruments redeemed by issue month

Screen display or report of value of redemptions by vendor

Implementation Approach

- ▶ The total amount due the vendor is debited to the State agency WIC bank account and credited to the vendor's bank via electronic funds transfer through the ACH network or by State check or warrant. The vendor is also advised of rejected food instruments, reasons for rejection, and informed of what information he must provide in order to receive payment for the food instrument. It should be noted that when a food instrument is rejected, the State agency might reject payment of the entire food instrument redemption value or just a portion of the value of the food instrument. The system must allow for flexibility in the amount billed or withheld. Also, the system may be designed to automatically assign appropriate values based on the reason for rejection.

3.5.2 Reconcile Food Instruments

The State agency must account for the disposition of all food instruments as either issued or voided, and as either redeemed or unredeemed.

Redeemed food instruments must be identified as validly issued, lost, stolen, expired, duplicate, or not matching valid enrollment and issuance records. In an EBT system, evidence of matching redeemed food instruments to valid enrollment and issuance records may be satisfied through the linking of the Primary Account Number (PAN) associated with the electronic transaction to valid enrollment and issuance records. A PAN and the associated benefit balance by food category and subcategory are matched against the household record of food categories and subcategories issued and redeemed. This process must be performed

within 120 days of the first valid date for participant use of the food instruments.

Although participants are encouraged to use all of their food instruments, they sometimes choose not to redeem all or some of the food instruments. Or, if advance printing of food instruments is done, some participants may not claim their food instruments. Similarly, it is possible that the participant redeemed the food instrument, but the vendor did not submit the food instrument for payment in the required timeframe. Also, food instruments are sometimes lost or stolen while in the participant's possession so that State or local agency staff have voided the food instrument.

In addition, some food instruments are redeemed, but have no issuance record. The system must reconcile these food instruments to a valid certification and issuance record, or investigate for possible fraudulent use.

The system should automatically void food instruments that are expired for participant or vendor redemption.

The system should also capture and maintain data about the manual voiding of food instruments. Food instruments are often voided because the food instruments were damaged or misprinted. The system should capture and maintain this void data for food instruments printed on demand, and food instruments printed in advance in the benefit issuance function.

To help facilitate the voiding of a series of food instruments with sequential serial numbers (such as when a participant does not transact any food instruments), the system should provide a capability for users to void the entire series of instruments with a single entry.

3.5.2.1 Retrieve Food Issuance File

The system should initiate the reconciliation process by retrieving the file of food instruments issued for an issuance month.

Inputs:

Food Instrument Estimated Value

Food Instrument Issuance Date

Food Instrument Maximum Allowed Amount

Food Instrument Use/Disposition Code

Food Instrument Use/Disposition Date

Food Instrument Valid End Date

Food Instrument Valid Start Date

Process:

- Retrieve food issuance file for all food instruments that have a Food Instrument Use/Disposition Date within the month of issue that will be reconciled

Outputs:

Food instrument issuance file by month of issue

3.5.2.2 Retrieve the Food Instruments Redeemed File and Reconcile with Issuance File

The system should retrieve the Food Instruments Redeemed File compiled for food instruments paid and food instruments rejected when preparing vendor payments. This provides a list of redeemed food instruments by serial number and redemption value. The system should complete a one-to-one reconciliation match of the food instrument serial numbers in the issuance file with the serial numbers in the redemption file. All food instruments issued and redeemed must be matched with a valid participant record. For all food instruments that are validly redeemed, the system should capture and maintain both the obligation amount (estimated redemption value) and the outlay (actual redemption value) amount.

Inputs:

Food Instrument Amount Billed to Vendor (postpayment)

Food Instrument Amount Collected From Vendor (postpayment)

Food Instrument Amount Not Paid (prepayment)

Food Instrument Estimated Value

Food Instrument Identification Number

Food Instrument Issuance Date

Food Instrument Maximum Allowed Amount

Food Instrument Redemption Batch

Food Instrument Redemption Value

Food Instrument Reject Count

Food Instrument Reject Reason Code

Food Instrument Use/Disposition Date

Food Instrument Valid End Date
Food Instrument Valid Start Date
Food Instrument Vendor Redemption Date
Food Instrument Void Date
Vendor Identification Number

Process:

- Conduct a food instrument serial/identification number match between food instruments on the issuance file and food instruments on the redemption file
- Replace food instrument obligations with actual redemption amounts for all food instruments paid
- For prepayment systems, update any food instrument redemption amounts for food instruments that were not paid pending dispute resolution where the State agency and vendor have resolved the final redemption amount
- For post-payment systems, enter any food instrument amounts collected from the vendor
- Update the Obligation and Outlay data stores
- Calculate food instrument average redemption amounts for all regular vendors, for only A50 vendors, and by peer group, and update the Food Instrument data store

Outputs:

Updated food instrument obligations and outlays

Implementation Approach

- ▶ Food instruments on the rejected list should be held and not reconciled until the vendor has a chance to dispute the non-payment. Once the rejection is settled, the State agency can enter the final food instrument redemption value as an outlay. For rejected food instruments that were paid and the vendor billed for the disputed amount, the system should use the actual redemption amount paid. When the State agency is later repaid by the vendor, this is recorded as a vendor collection.

3.5.2.3 Reconcile Voided, Expired, and Redeemed but Unissued Food Instruments

In addition to reconciling used, issued food instruments, the system must be able to reconcile voided, expired, and redeemed but unissued food instruments.

Inputs:

Food Instrument Identification Number
Food Instrument Redemption Value
Food Instrument Use/Disposition Code
Food Instrument Use/Disposition Date
Food Instrument Valid End Date
Food Instrument Void Date
Local Agency Identification Number
Participant Identification Number

Process:

- For any food instruments that are unredeemed and expired (those beyond the maximum allowable days from the first valid date for the participant to use and vendor to request payment), reduce the food instrument obligation to zero, and code these food instruments as “void-expired”
- Retrieve the file on food instruments that were voided, reduce the food instrument obligation to zero and code these food instruments as “void—staff void”
- Run a match of the redeemed but unissued food instruments against the issuance file
- For food instruments that still have no matching issuance record, prepare an exception report for the local agency that issued the food instrument with information on the food instrument and its disposition
- Update the Obligation data store for expenditure tracking purposes

Outputs:

Screen display or report of updated food instrument void reason and date
Screen display or report of total food redemption value

Redeemed but unissued food instrument exception report by local agency

Implementation Approach

- ▶ The system should automatically void any expired food instruments and delete the obligation value. The system should also retrieve the file on food instruments that were voided by local agencies and ensure the obligation value is deleted. The system should create an exception report for redeemed but unissued food instruments. In some cases, the participant may have used his/her food instruments before his/her certification record was entered in the system. In this instance, the system should run these redeemed food instruments' serial/identification numbers against the food instrument issuance file serial/identification numbers to find a match. If a match is not found, the State agency should investigate the matter with the issuing local agency. The system should include the actual redemption value as an outlay until an investigation is completed.

3.5.3 Pay Vendor for Food Benefits Redeemed via EBT

In an EBT environment, the majority of the functions related to vendor payment, which were previously described for the paper environment, are functions of *the EBT system* and therefore not included as WIC IS functions. This includes compiling transaction data and performing edits that are part of EBT transaction processing. However, it is possible for the State agency to be involved in the vendor payment process to include initiating vendor payment.

3.5.3.1 Process Vendor Payment

The EBT system maintains transaction history data, which include all of the vendor credit amounts and transaction details. This information is used to determine daily vendor payment amounts and initiate payment to vendors via electronic funds transfer or ACH transaction.

The system should support the initiation of vendor payment. Typically, a WIC IS does not actually perform the payment processing (such as transferring funds to bank accounts or performing ACH transactions). Additionally, the majority of processes related to this function are typically performed outside of the WIC IS by a banking contractor, EBT processor, or by the state through another system. Because these processes are part of a larger comprehensive list of WIC processes, they have been included in the FReD.

Inputs:

These data exist in the EBT system; however, they may be downloaded by the State for use in its IS.

State Agency Debit Amount

Vendor Credit Amount

Transaction History Data

Process:

- Retrieve Transaction History Data
- Calculate vendor credits/State WIC debits
- Create payment file (i.e., ACH file)
- Initiate process to perform electronic funds transfer (i.e., ACH credit) for transmission to vendor bank

Outputs:

ACH transaction file

Vendor transaction detail file

3.5.4 Reconcile EBT Benefits

The EBT system will track the disposition of issued benefits and return transaction history data to the WIC IS. Benefits issued to participants via EBT should be reconciled to ensure program integrity. This is necessary to ensure that all benefits are properly accounted for as redeemed, expired, or voided.

Although participants are encouraged to use all of their EBT benefits, they sometimes choose not to redeem all or some of their benefits. Similarly, it is possible that the participant redeemed benefits, but (depending on the technology used) the vendor did not submit the claim file for payment in the required timeframe. Also, benefit packages may sometimes require adjustment after issuance, such as in cases of infant formula changes. These changes may require the State or local agency staff to void and replace the original benefit or make an adjustment to the original benefit, which should be accounted for in the reconciliation process.

As with the paper process, the outstanding benefit obligation must be maintained. However, with EBT, it is possible to record obligations at the food item level and to reduce the obligation based on the quantity of category/subcategory redeemed.

3.5.4.1 Retrieve Benefit Issuance File

The system should initiate the reconciliation process by retrieving the file of EBT benefits issued for an issuance month.

Inputs:

Category/Subcategory Category Code
Category/Subcategory Subcategory Code
Food Benefit Prescription Identification Number
Food Item Prescribed Unit Quantity
Food Benefit Prescription Date
Food Item Prescribed First Date to Spend
Food Item Prescribed Last Date to Spend
Participant Family/Household Identification Number

Process:

- Retrieve benefit issuance file for all benefits that have Food Item Prescribed First Date to Spend within the specific timeframe that will be reconciled

Outputs:

Issued benefit file for specified timeframe

3.5.4.2 Retrieve Transaction History Data /Reconcile Redeemed, Adjusted, Voided, and Expired Benefits with Issuance File

The system should retrieve the transaction history data from *the EBT system*. This file provides a list of all transactions performed during a specified timeframe that includes data regarding the disposition of each benefit by category, subcategory, and unit. Data is available at a family/household level because individual participant benefits are aggregated within an account. The transaction history data should be used by the WIC IS to complete a one-to-one reconciliation match by household of issued benefits to redeemed, expired, voided, and adjusted benefits.

Inputs:

Category/Subcategory Category Code
Category/Subcategory Subcategory Code
Category/Subcategory Quantity – Redemption

Category/Subcategory Quantity – Expired
Category/Subcategory Quantity – Voided
Category/Subcategory Quantity – Adjusted Credit
Category/Subcategory Quantity – Adjusted Debit
EBT Total Requested Amount – Transaction
EBT Total Requested Amount – Daily Total
EBT Total Paid Amount – Transaction
EBT Total Paid Amount – Daily Total

Process:

- Obtain issued benefit file
- Obtain transaction history data and identify benefit redemption, expiration, void and adjustment data
- Compare issued benefits to redeemed, expired, voided and adjusted benefits at the family/household level by category/subcategory
- Post redemption data back to family/household records
- Compare total amount paid to vendors with drawdown amount and obligation estimates
- Display or provide report of reconciliation discrepancies
- Calculate food item average redemption amounts for all vendors, for all vendors excluding WIC A50 vendors, for only WIC A50 vendors, and by peer group and updated the Food Item data store.

Outputs:

Display or report of reconciliation discrepancies

Implementation Approach

- ▶ The retrieval of daily transaction history data can be initiated by the WIC IS. The process should be automated so that it is performed on a consistent basis.
- ▶ *The EBT system* can initiate the automated process to transmit transaction history data to the WIC IS on a regular schedule.
- ▶ The daily Transaction History data can be stored in a data warehouse for future reporting and analysis.
- ▶ The disposition of benefits can be posted back to household records. This information may be used in performing analyses for nutrition education, nutrition needs, and other types of trend analysis as well as for review of food packages.

- ▶ In some EBT implementations, the issuance data is posted to a database in *the EBT System* for use in validating redemption transactions. In this case, the agency may choose to have *the EBT system* perform the reconciliation processes described here rather than having the EBT vendor daily claims file returned to the WIC IS.