

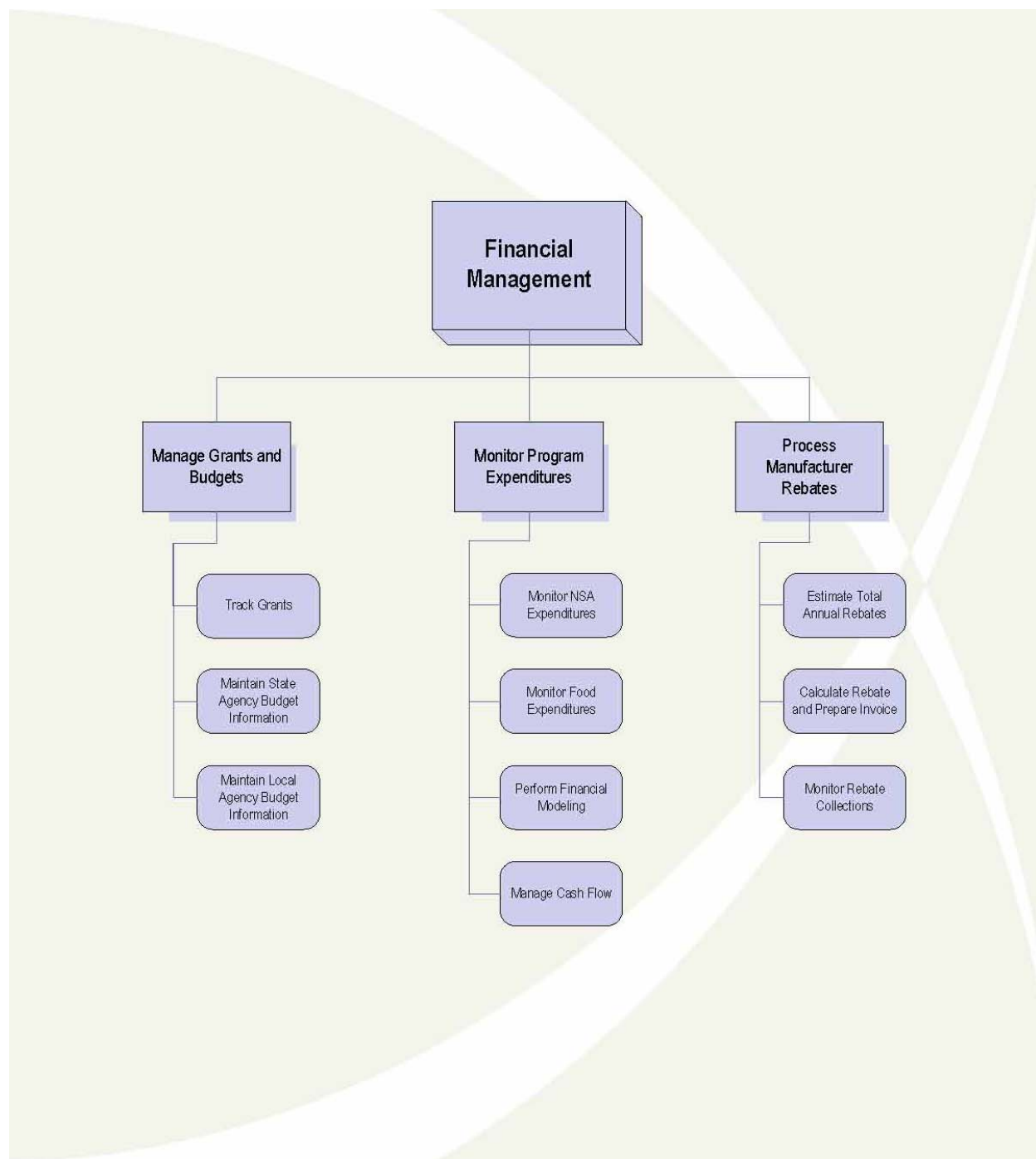
## 3.6 Financial Management

The Financial Management functional area provides the State agency with a tool for managing food and nutrition services and administration (NSA) grants and expenditures. It allows State agencies to manage budget information, track expenditures, calculate rebates due from manufacturers on approved products (e.g., infant formula), monitor actual cash flows, and prepare participation and expenditure reports for FNS from data compiled under several other functions. These data also allow WIC managers to perform more sophisticated analyses of projected WIC Program funds usage.

In some State agency systems, financial management is maintained as part of the WIC IS. In other State agencies, it is maintained elsewhere but depends on the WIC IS for providing the data necessary to conduct the financial analysis. For example, data captured through the system may be extracted and exported into a PC-based spreadsheet application. The functionality described below for obtaining data required for financial management analysis may occur in the WIC IS or an alternative system.

Financial Management is comprised of the following functions:

- Manage Grants and Budgets
  - Track Grants
  - Maintain State Agency Budget Information
  - Maintain Local Agency Budget Information
- Monitor Program Expenditures
  - Monitor NSA Expenditures
  - Monitor Food Expenditures
  - Perform Financial Modeling
  - Manage Cash Flow
- Process Manufacturer Rebates
  - Estimate Total Annual Rebates
  - Calculate Rebate and Prepare Invoice
  - Monitor Rebate Collections



*Exhibit 3-6: Functional Decomposition Diagram – Financial Management*

### 3.6.1 Manage Grants and Budgets

State agencies receive separate Federal grants for food and NSA expenditures each year. Food grants are used to purchase supplemental foods and may be used to rent or purchase breast pumps. The method used to deliver supplemental foods to WIC participants (i.e., retail purchase, home delivery, or direct distribution) determines the cost components of food costs. The cost of supplemental foods in a retail food delivery system, the most common food delivery system, is the total amount paid to authorized vendors for food instruments transacted by program participants for authorized supplemental foods. State agencies using a home food delivery system may charge their food grants for the total amount paid to home food delivery contractors for both the cost of the authorized supplemental foods provided to program participants and the cost of delivering the food items. State agencies operating a direct distribution food delivery system may charge their food grants for the total amount paid to procure an inventory of supplemental foods, store the food in a warehouse, and distribute it to program participants. NSA funds are used for program management, client services, nutrition education, and breastfeeding promotion and support. The amounts of the food and NSA grants are determined by FNS through funding formulas prescribed by Federal regulation. Funds are allocated at the beginning of each fiscal year. Throughout the year, FNS recovers and reallocates unspent funds, so a State agency's food and NSA grants may increase or decrease during the course of a fiscal year.

Although the WIC Program does not require matching funds, some State agencies receive funds for food and/or NSA costs from their State budget. The amount of State-appropriated funds may vary from year to year. State agencies are required to maintain a distinction between their Federal and State-appropriated program funds. It is also important for State agencies to track WIC participation and expenditures according to both the Federal and State fiscal year budget cycles if they differ. Finally, the State agency may also receive program income from a variety of sources, including grants from food manufactures, interest on rebate funds, and civil money penalties collected from vendors.

State agencies need information on Federal and State funds allocated to the WIC Program to determine the funds available to support the maximum State agency caseload and allocate local agency caseload and NSA budgets. It may also be useful for the system to enable both the State and local agency to retrieve budget data to automatically track actual WIC expenditures against budgeted amounts at a more detailed level.

See Federal guidance for information about rules related and flexibilities that impact State budget and expenditure planning.

### **3.6.1.1 Track Grants**

The system should record the food, NSA and any other grants awarded by FNS to the State agency. It also should record any State funds that are allocated for use during the Federal fiscal year<sup>40</sup>.

The grant amounts may change over the course of the year, due to reallocations, the funding rules, and other grant adjustments; therefore the system should update grants and budget estimates and use the new information to recalculate and reallocate caseload levels at the State level and across local agencies. The system should maintain a current balance of funding levels in all grant categories throughout the year to be used for the food budget and State and local agency NSA and other budgets.

#### **Inputs**<sup>41</sup>:

- Grant Adjusted Available Funds
- Grant Backspend Funds
- Grant Beginning Grant Date
- Grant Converted Food Funds
- Grant Converted NSA Funds
- Grant Discretionary NSA Grant
- Grant Ending Food Grant
- Grant Estimated Annual Rebate
- Grant Estimated Breast Pump Costs
- Grant Estimated Conversion
- Grant Estimated Medicaid Reimbursements
- Grant Estimated Monthly Rebate
- Grant Estimated Other Credits
- Grant Estimated Participant Collections
- Grant Estimated State Grant
- Grant Estimated Vendor Collections

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<sup>40</sup> Those State agencies that do not currently receive State funds should not ignore the possibility that they may receive State grants in the future. This information is an important factor in the estimation of caseload and NSA budgets.

<sup>41</sup> Grant types tracked through this function include food and NSA grants, but any additional grant types should be captured.

Grant Federal Fiscal Year  
Grant Food Reallocations  
Grant Letter of Credit Number  
Grant Medicaid Reimbursements  
Grant NSA Reallocations  
Grant Original Federal Food Grant  
Grant Other Adjustments  
Grant Other Credits  
Grant Other Grant Income  
Grant Other Program Income  
Grant Participant Collections  
Grant Percent SAG1  
Grant Percent SAG2  
Grant Percent SFG1  
Grant Percent SFG2  
Grant Program Income  
Grant Report Type Code  
Grant SNPIIS Code  
Grant Spend Forward Funds  
Grant State Agency Identification Number  
Grant State Fiscal Year  
Grant State Grant  
Grant State Grant FFY  
Grant State Grant SFY1  
Grant State Grant SFY2  
Grant State Name  
Grant Total Available Funds  
Grant Total Available Revenues  
Grant Type Code  
Grant Unspent Funds  
Grant Vendor Collections  
Grant Vendor Postpayment Collections  
Grant Vendor Prepayment Collections

**Process:**

- Accept user input of grant funding information
- Adjust the State grant to correspond to Federal fiscal year funding
- Calculate total available Federal and State funds for all grant types
- Update Grant data store

**Outputs:**

Screen display or report of Grants Status

**Implementation Approaches**

- ▶ Because Federal and State fiscal years may differ, the State agency must adjust the State grant to correspond to Federal fiscal year funding. One method to convert from State fiscal year to Federal fiscal year is to record the State grants for the two State fiscal years that overlap the Federal fiscal year and assign a conversion percentage to each based on the percentage overlap with the Federal fiscal year. For example, given that the Federal fiscal year is October 1 through September 30, if a State fiscal year stretched from January 1 through December 31, the first State grant would be assigned a conversion percentage of 25 percent covering the months of October through December. The second State grant (from the next State fiscal year) would be assigned a conversion percentage of 75 percent, covering the remaining months of January through September.

**3.6.1.2 Maintain State Agency Budget Information**

*The State agency budget is comprised of both food grant funds and NSA grant funds. For the food budget, the State agency must obtain the total funds available from Federal grants and any State grants and use this information for caseload allocations. In addition, the State agency may use its food funds for the purchase or rental of breast pumps. If it chooses to do so, the State agency may include breast pump costs in the budget.*

*For the NSA grant, the State agency prepares an NSA budget that combines detailed information on the NSA expenses for the State agency and summary budget information for all local agencies combined. At the end of the Federal fiscal year, the State agency must report to FNS the total expenditures for NSA costs by category for program management, client services, nutrition education, and breastfeeding promotion and support. Additionally, the State agency may wish to collect more detailed information on line items such as salaries or supplies to better track expenditures as well as to account for IS or EBT costs. While it is not critical that the State agency maintain a budget for these items, it is useful so that the State agency can compare budget amounts to actual expenditures as the year progresses. If a State agency is using*

*spendforward funds for IS expenditures, establishing an IS budget category is highly recommended.*

The system should provide the ability to retrieve State agency grant and budget data and retrieve local agency budget detail. Since funding for the WIC Program may change during the course of the year, the system must allow users to update grant data and budget estimate data at any time. The system should generate a copy of the NSA budget upon request.

**Inputs:**

Grant Estimated Breast Pump Costs  
Grant Federal Fiscal Year  
Grant Total Available Funds  
Grant Type Code  
NSA Budget Beginning Grant Date  
NSA Budget Beginning Report Date  
NSA Budget Breast Pump  
NSA Budget Expenditure Amount  
NSA Budget Expenditure Budget Code<sup>42</sup>  
NSA Budget Expenditure Type Code<sup>43</sup>  
NSA Budget Expenditure Type Total  
NSA Budget Ending Grant Date  
NSA Budget Ending Report Date  
NSA Budget Federal Fiscal Year  
NSA Budget Level Indicator  
NSA Budget Local NSA Budget- Total  
NSA Budget Program Income Expended  
NSA Budget Program Income Received  
NSA Budget Spending Target  
NSA Budget Total Unliquidated NSA Obligations

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<sup>42</sup> Budget codes refer to items such as Breastfeeding, Client Services, Nutrition Education, and Program Administration.

<sup>43</sup> Expenditure type codes refer to items such as Communications and Travel, Equipment, Indirect Costs, Information Systems, Other Direct Costs, Salaries and Benefits, and Space Utilization.

**Process:**

- Calculate adjusted total available Federal and State funds for Food
- Calculate adjusted total available Federal and State funds for NSA
- Calculate total NSA budget for local agencies
- Calculate total NSA budget for the State agency
- Update Grant and NSA Budget data stores

**Outputs:**

Screen display or report of State Budget for Food and NSA

Screen display or report of Food and NSA Grants Status

**3.6.1.3 Maintain Local Agency Budget Information**

For NSA funds, the State agency must allocate NSA budgets to local agencies each year<sup>44</sup>. Regardless of the implementation approach, the system must capture WIC NSA budget data for individual local agencies in order to track expenditures against the budget. Once approved, the system should generate or transmit a copy of the local agency NSA budget to local agencies.

**Inputs:**

Local Agency Identification Number

NSA Budget Beginning Grant Date

NSA Budget Beginning Report Date

NSA Budget Breast Pump

NSA Budget Ending Grant Date

NSA Budget Ending Report Date

NSA Budget Expenditure Amount

NSA Budget Expenditure Budget Code<sup>45</sup>

NSA Budget Expenditure Type Code<sup>46</sup>

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<sup>44</sup> Food funds are rarely allocated to local agencies. Instead, a State agency allocates the equivalent of food funds in the form of caseload assignments. This is addressed in the Caseload Management chapter.

<sup>45</sup> Budget codes refer to items such as program management, client services, nutrition education, and breastfeeding promotion and support.



NSA Budget Expenditure Type Total  
NSA Budget Federal Fiscal Year  
NSA Budget Level Indicator  
NSA Budget Local NSA Budget- Total  
NSA Budget Program Income Expended  
NSA Budget Program Income Received  
NSA Budget Spending Target  
NSA Budget Total Unliquidated NSA Obligations

**Process:**

- Record budget information for each local agency
- Update NSA data store

**Outputs:**

Screen display or report of Local Agency Budgets by Budget Category

**Implementation Approaches**

- ▶ State agencies use various methods to allocate funds to local agencies, such as negotiated budgets or allocations based on defined formulas. Some State agencies may allocate only a total amount and others may provide a more detailed budget with functional budgets for categories such as nutrition education and/or line items such as salaries. These methods may be supported by the system or handled in the State agency accounting system.
- ▶ Alternatively, the budgeting function may be performed in an external spreadsheet application that uses relevant data exported from the WIC IS.

### 3.6.2 Monitor Program Expenditures

State agencies should monitor food and NSA expenditures to compare actual costs to budgets and submit required reports to FNS. The rate of expenditure of program funds is of particular concern to program managers who must react to this information and adjust caseload allocations accordingly. It is important for State agencies to continuously monitor expenditures and cash flow so that they do not place their financial commitments to participants, vendors, and creditors in jeopardy.

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<sup>46</sup> Expenditure type codes refer to items such as Communications and Travel, Equipment, Indirect Costs, Information Systems, Other Direct Costs, Salaries and Benefits, and Space Utilization.

Advance warning of surpluses or shortages is critical to minimizing potential disruption of the overall WIC Program operations.

The receipt of rebates presents a unique challenge in managing expenditures and cash flow. The State agency must pay vendors for the full “pre-rebate” purchase value for food instruments with the rebated item (e.g., infant formula). The State agency recoups the rebate once the infant formula manufacturer is billed and payment is made. Thus, State agencies often need more funds at the beginning of the year to compensate for the lag time in receiving infant formula rebate payments. To cover these additional costs early in the year, FNS issues 1/3<sup>rd</sup> of the total annual Federal grant in the first quarter, 1/4<sup>th</sup> in the second and third quarters, and the remaining 1/6<sup>th</sup> in the final quarter.

A major task under the Financial Management function is to provide FNS with the WIC Financial Management and Participation Report (FNS-798). FNS requires this report from State agencies on a monthly basis and for the fiscal year closeout. For closeout, the State agency must report its spending option elections (spendforward/backspend) and also provide a report on categories of NSA expenditures. The data needed for the FNS-798 involves the food and NSA grants, food budget obligation, and food and NSA expenditures. In essence, the data that FNS requires is the same data the State agency needs to manage its funds throughout the year.

The FNS-798 report provides FNS with the data needed to calculate unspent funds for reallocation to State agencies and prepare infant formula allocations. FNS needs this data to be on time and accurate to assure that all State agencies receive funding as quickly as possible; otherwise, funding for all State agencies is compromised.

### **3.6.2.1 Monitor NSA Expenditures**

*For the closeout report, the State agency must report NSA expenditures by State and local levels for the following categories: Program Management, Client Services, Nutrition Education, and Breastfeeding Promotion and Support. Refer to Federal guidance for information on NSA reporting requirements.*

The system should track State and local agency NSA expenditures against the amounts budgeted. If NSA expenditures are kept on a separate State accounting system, the system should interface with the State's accounting system for the transfer of actual NSA expenses.

The system should maintain data for Federal reporting purposes on total NSA expenditures per month and any unliquidated obligations that the State agency expects to spend on capital assets or procurements that have

not yet been paid. NSA expenditures and unliquidated obligations will include any breast pumps in the NSA budget and ordered or purchased with NSA funds.

**Inputs:**

Clinic Identification Number  
Local Agency Identification Number  
NSA Budget Program Income Expended  
NSA Budget Total Unliquidated NSA Obligations  
NSA Expenditure Beginning Grant Date  
NSA Expenditure Beginning Report Date  
NSA Expenditure Breast Pump  
NSA Expenditure Date  
NSA Expenditure Ending Grant Date  
NSA Expenditure Ending Report Date  
NSA Expenditure Expenditure Amount  
NSA Expenditure Expenditure Budget Code<sup>47</sup>  
NSA Expenditure Expenditure Type Code<sup>48</sup>  
NSA Expenditure Expenditure Type Total  
NSA Expenditure Federal Fiscal Year  
NSA Expenditure Level Indicator  
NSA Expenditure Program Income

**Process:**

- Calculate actual NSA expenditures from State and local agency expenditure reports
- Calculate any unliquidated NSA obligations for upcoming months
- Update expenditures to date in the NSA data store
- Compare expenditures as a proportion of the budget amounts for each category

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<sup>47</sup> Budget codes refer to items such as program management, client services, nutrition education, and breastfeeding promotion and support.

<sup>48</sup> Expenditure type codes refer to items such as Communications and Travel, Equipment, Indirect Costs, Information Systems, Other Direct Costs, Salaries and Benefits, and Space Utilization.

### **Outputs:**

Screen display or hard copy report showing NSA Expenditures Compared to Budget

Screen display or hard copy report showing NSA Expenditures to date (populating appropriate fields, as listed in the data dictionary)

### **3.6.2.2 Monitor Food Expenditures**

*The State agency must maintain records of its estimated food obligations for current and future months as well as actual outlays for current and past months. These data are collected and compiled from various functions and data stores. When food benefits are issued to a participant, an estimated food redemption value, or obligation, is recorded. The obligation is calculated based on food price data maintained in the system.*

*An obligation is estimated each time that food benefits are issued and recorded as a food obligation. The total of all food benefit obligations is obtained to project the expenditures for a month. The system also tracks obligations for future months using food obligation estimates prepared under the Financial Modeling function. These data are used for Federal reporting and to help the State agency estimate future costs to stay within the grant.*

*The participant or caretaker usually has 30 days to purchase food and the vendor has 60 days from the first date of use. Therefore, for food benefits issued for any given month, actual food expenditures will occur over a period of time. Once all food benefits are paid or otherwise accounted for, the issue month is closed out. At this time, the actual expenditure, or outlay, is known and the original obligation is updated to reflect the actual outlay. These data are accumulated under the Benefit Redemption, Settlement, and Reconciliation function.*

For paper food instrument systems, the system should total the food instrument redemption value all food instruments redeemed in order to track expenditures. As food instruments issued must be matched against food instruments redeemed, the system should perform a reconciliation before the obligations are updated and outlays are recorded.

The system must also subtract all rebate estimates and amounts billed and collected and vendor collections, participant collections, program income collected, and other credits used to fund food costs from the obligations and outlays. All of the data are used to report to FNS on the FNS-798. Food expenditures and unliquidated food obligations may also include breast pumps ordered or purchased with food funds.

For systems issuing benefits via EBT, *the EBT system* maintains an ongoing balance of obligations (issued, unexpended benefits) and outlays

(benefit redemptions) as it is updated each time a transaction occurs. Data regarding benefit balances, redemptions, voids, adjustments, and expirations are maintained in *the EBT system* and reported back to the State agency through daily transaction history data as well as daily and monthly reports.

**Inputs:**

Future Obligation Date  
Future Obligation Federal Participation Estimate  
Future Obligation Food By Month  
Future Obligation Food Inflation Factor  
Future Obligation Food Package Cost Estimate  
Obligation Breast Pump Costs  
Obligation Date of Current Obligation  
Obligation Net Obligation  
Obligation Program Income Received  
Obligation Total Estimated Obligation  
Obligation Total Estimated Other Credits  
Obligation Total Estimated Participant Collections  
Obligation Total Estimated Rebates  
Obligation Total Estimated Vendor Collections  
Obligation Total Redemption Value per Month  
Obligation Value per Month  
Outlay Breast Pump Costs  
Outlay Date  
Outlay Net Federal Outlay  
Outlay Participant Collections Received  
Outlay Program Income Received  
Outlay Total Other Credits Received  
Outlay Total Rebates Billed  
Outlay Total Redemption Value per Month  
Outlay Vendor Collections Received

### **Process:**

#### **Obligations**

- Retrieve the estimate of future month food obligations from the Future Obligation By Month data store
- For systems issuing benefits via paper, retrieve the estimated food instrument redemption values for the month, and past months that are not closed out. For systems issuing benefits via EBT, retrieve the estimate of gross food obligations for the report month, and past months that are not closed out, from the monthly estimated redemption value of food issued for each household
- For each upcoming month, add any estimates for breast pump costs that will be purchased with food funds
- Retrieve any vendor collections, participant collections and program income from the Grants data store and subtract the estimated amount the State agency expects to use from the obligation amount
- Retrieve estimated rebates from the Rebate data store
- Subtract the estimated rebates, from the food obligation balance to get the net obligation (Note: The system should revise net obligations each month as actual outlay data are received)

#### **Outlays**

- For systems issuing benefits via paper, retrieve the total of all redemptions by issue month. For systems issuing benefits via EBT, retrieve actual food outlays from the EBT system
- Subtract any vendor or participant collections, other credits, and program income needed to fund food outlays for the month
- Add any food expenditures for breast pump costs to the outlays
- Retrieve the total value of rebates billed from the Rebate data store and subtract the rebates billed from actual outlays to arrive at the net federal outlays for each issue month

### **Outputs:**

Screen display or report of Federal Food Obligations and Outlays

Screen display or report of Federal Food Obligations and Outlays  
Compared to the Budget

### 3.6.2.3 Perform Financial Modeling

*The State agency must manage its WIC grant to spend as close to 100 percent as possible. If the State agency overspends, there are no federal funds to cover the overage (although some States do have State funds for such situations). The State agency may use back spent funds, but this diminishes funds the State agency will have in the future year. Alternatively, if the State agency under spends by more than three percent, its future grants could be permanently reduced. There are many variables that impact spending such as changes in food costs, changes in rebates, participation fluctuations, inflation, local agency capacity, unexpected increases or decreases in the federal grant and changes in the economic conditions of the WIC target population.*

The system should provide information to the State agency manager that assists in monitoring past, current and future costs.

If the previous function is implemented, the system already calculates obligations for the current month of issue and prior months based on food instruments or food benefits issued. However, the system should also support the State agency's preparation of food expenditure obligations for future months that do not yet have issuance data for its budget and for federal reporting purposes. In order to estimate obligations for upcoming months, information is needed on projected participation and projected food costs. Initially, the system should obtain expected participation from the federally projected participation estimate in the caseload management function. The system can refine this participation estimate as the financial modeling progresses.

#### **Inputs:**

For "what if" financial modeling, various parameters can be input to see the impact of the parameter on the projected outcome. These parameters include:

Food Inflation Factor

Food Package Cost Estimate

Participation Estimate

Other Factors as Appropriate (Inputs will vary for each model)

#### **Process:**

- Use projected participation and food cost data to estimate future months obligations
- Calculate an estimate of future expenditures under various scenarios using different food cost and/or participation variables

- Store future obligations by month in the Future Months Obligation data store

### Outputs:

Screen display or report of Estimated Future Obligations and Expenditures

#### Implementation Approaches

- ▶ To project food costs, the State agency can use actual food cost data for EBT, or historical redemption data from food instruments redeemed for paper food instrument systems. The system can estimate a food package cost by compiling average prices for each food in the food package or food instrument types. The system can estimate the average food package cost for each participant category and for the food instruments in the participant's package. The system should use the pre-rebate food cost for its projections as the estimated rebate is deducted at a later point to arrive at net obligations. It is important that the State agency include in its projections an appropriate inflation factor (if it differs from the Federal inflation factor estimate) as well as any future changes that may impact food costs such as an increase or decrease in rebates or food cost containment plans.
- ▶ Once the projected participation and food cost data are gathered, the system can then estimate obligations using several options for food costs:
  - The number of expected participants multiplied by the average food cost per participant.
  - The number of expected participants in each category (e.g., pregnant women, infants, etc.) multiplied by the corresponding category's average food package cost.
  - The number of expected redemptions by food or food instrument type multiplied by the average value per food or food instrument type.

This future monthly food obligation is then used for budget planning and federal reporting. If the State agency finds it will exceed its food budget, it can employ more stringent cost containment measures or plan gradual reductions of caseload to stay within its budget. Conversely, if the State agency finds it will under-spend, it can take steps to increase caseload. Once the State agency has determined a participation level it can support within the available funds, this becomes the State caseload estimate used in the Caseload Management function to do caseload allocations to local agencies.



► When a State agency is in an over or under spending situation, it is also helpful to prepare several “what-if” scenarios. The system should accept different variables for food package costs, participation trends, inflation projections and other variables to estimate future expenditures. In addition, it is important for the State agency to compare its final participation estimate with the FNS funding formula participation projections. If the State agency's participation estimates exceed the FNS estimate due to food cost savings achieved through cost containment initiatives, the State agency may elect to fund additional NSA costs associated with the additional participants through the conversion of food funds to NSA funds. The system should support the analysis required to make this decision and project the impact on food and NSA expenditures. Such financial modeling will assist the State agency in evaluating whether adjustments are needed in caseload allocations or food package cost containment strategies.

#### **3.6.2.4 Manage Cash Flow**

The system should enable the State agency to view the effect of actual NSA and food expenditures on the agency's cash position at any given time. This function is intended to provide the State agency with information on cash flows and balances. The system should record all cash inflows (grants, rebates, recoveries, etc.) as well as cash outflows (food vendor payments, NSA payments for costs, etc.). The State agency must anticipate cash needs to ensure proper cash draws are made against the Federal grant. If the State draws too much cash, it may be liable for interest costs to the Federal government, as required under the Cash Management Improvement Act (CMIA). When the fiscal year financial activity is closed out and reconciled, cash drawn from the Federal WIC grants must reconcile to the State agency's reported expenditures.

##### **Inputs:**

Cash Flow As Of Date  
Cash Flow Current Food Available  
Cash Flow Current Expenditures  
Cash Flow Previous Balance  
Grant Type Code

##### **Process:**

- Calculate the total cash inflows by adding Federal grants, State grants, manufacturer rebates, program income and vendor/participant collections from the Grants data store
- Calculate total cash outflows by adding vendor payments and NSA expenditures from the Outlays and NSA Expenditure data stores

- Calculate the current cash balances for NSA and food funds by adding total cash inflows to the previous cash balance for each and subtracting the total cash outflows

**Outputs:**

Screen display and hard copy Report of Cash Flows

**Implementation Approaches**

- ▶ The system should provide advance warning of potential problems with significant cash shortfalls or excesses so that the State agency may take appropriate action.
- ▶ The system should have the functionality to perform an ad hoc cash flow projection (quarterly and annual) of the financial status of a State agency WIC program. This can be critical in identifying funding shortfalls months before they occur thereby affording the State agency sufficient time to initiate corrective actions.

### 3.6.3 Process Manufacturer Rebates

As part of cost containment measures, most State agencies must contract with manufacturers to obtain rebates in return for the State's exclusive use of the manufacturer's product in the WIC Program (e.g., infant formula). Manufacturers agree to rebate a specific dollar amount per unit purchased through the WIC Program. The largest sum of rebates are collected from infant formula manufacturers, however some State agencies also collect rebates from manufacturers of other food products such as infant cereal, infant juice, and other juice.

Rebates are important because they can significantly reduce the food package cost and allow more participants to be served with Federal grant funds. However, rebates do require a considerable amount of planning and monitoring to ensure integrity in the invoicing and collection process.

For paper food instrument systems, one of the difficulties in assessing infant formula rebates is that State agency systems do not have access to the exact type and quantity of infant formula actually purchased by the participant because participants do not always purchase the entire quantity of units indicated on the food instrument and this information is not collected at the point of sale. Therefore, the system needs to adjust the number of units prescribed on food instruments based on the actual redeemed value of the infant formula food instruments when preparing infant formula rebate invoices.

Although infant formula rebates are generally the most prevalent type of rebate, some State agencies have negotiated rebates on other food items.

Thus, the system should be flexible enough to handle rebate calculations for items other than infant formula.

### **3.6.3.1 Estimate Total Annual Rebates**

*The expected rebate amount for infant formula is based on several factors: expected infant participation, number of units per infant, percentage of infants that do not receive infant formula, historical percentage breakdown of infant formula sold by product type and form, and rebate rate per product type and form.*

The system should support this function by allowing State agencies to maintain data on rebate manufacturers and to prepare an estimate of the rebate amount expected for each month of the coming year. This provides a rebate estimate for Federal reporting and expenditure management. This is especially important if the State agency expects a change in its rebates during the year. The data are also useful for preparing and evaluating rebate proposals.

To accurately assess the rebates for infant formula, the system must decrease the expected number of infants by the number of those infants that will receive non-contract infant formula or are exclusively breastfed.

#### **Inputs:**

Rebate Estimate Federal Fiscal Year

Rebate Estimate Number of Participants to Receive Type/Form

Rebate Estimate Product Type/Form Code

Rebate Estimate Product Type/Form Rate

Rebate Estimate Quantity of Product Type/Form per Participant per Time Period

Rebate Estimate Rate for Contract 1

Rebate Estimate Rate for Contract 2

Rebate Manufacturer Address- City

Rebate Manufacturer Address- State

Rebate Manufacturer Address- Street

Rebate Manufacturer Address- Zip Code

Rebate Manufacturer Contact Name

Rebate Manufacturer Contact Telephone Number

Rebate Manufacturer Contract End Date

Rebate Manufacturer Contract Number  
Rebate Manufacturer Contract Start Date  
Rebate Manufacturer Email Address  
Rebate Manufacturer Identification Number  
Rebate Manufacturer Name

**Process:**

- Capture information about Rebate manufacturer
- Calculate the number of infants estimated to receive each type and form of infant formula (estimated infant participation less the number of infants receiving non-contract and exempt infant formula and fully breastfed)
- Calculate the total number of units expected to be purchased by multiplying the estimated number of infants times an estimated number of units per infant by type and form of infant formula
- Calculate the estimated total rebate by multiplying the rebate for each type and form of infant formula by the estimated number of units for each infant formula by type and form
- Calculate the total estimated rebate amount from the sum of the rebates for all of the individual infant formula types and form and store in the Rebate data store

**Outputs:**

Screen display or report on Projected Total Rebate for Each Formula Type and Form

**3.6.3.2 Calculate Rebate and Prepare Invoice**

The system should use redemption data to determine the number of units of a rebated item redeemed and multiply the number of units by the rebate amount. The system should use this information, as well as issue date information<sup>49</sup>, to generate an itemized invoice that provides supporting detail on the rebate calculations. Once reviewed by the State agency, the invoice should be sent to the manufacturer for payment. The State agency should have a method to track the invoice in the system.

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<sup>49</sup> It is important to report rebate payments by the month of issue of the food benefit rather than the month of redemption. Contract effective and termination dates are linked to the issue date. Price increase and decrease clauses in contracts are also based on the issue date, therefore, it is possible to have two rebate levels in effect for a given redemption month

### **Inputs:**

Rebate Actual Average Price  
Rebate Actual End Date  
Rebate Actual Product Type/Form Code  
Rebate Actual Product Type/Form Rate  
Rebate Actual Redeemed Quantity  
Rebate Actual Sale Identification Number  
Rebate Actual Start Date  
Rebate Invoice Bill Amount  
Rebate Invoice Identification Number  
Rebate Invoice Total Items Purchased Quantity  
Rebate Manufacturer Identification Number

### **Process:**

- For systems that issue benefits via EBT, retrieve the food item transaction data for infant formula from the rebate data store and multiply the number of units purchased by the rebate rate for each type/form
- For systems that issue benefits via paper, retrieve redemption data and calculate number of units of each type and form of the rebated items that were redeemed using vendor peer group or shelf prices. The system must estimate the actual number of units of redeemed infant formula, taking into account the number of full versus partial infant formula packages, to ensure that the invoice for rebates is as close as possible to the actual number of units purchased
- Calculate the rebate for each product form and type by multiplying the rebate rate by the number of units of each type form purchased
- Prepare rebate invoice for the manufacturer and/or create electronic file with invoice data for submission to rebate manufacturer

### **Outputs:**

Screen display of number of units redeemed during the rebate period  
Screen display and hard copy report on Rebate Amount for Each Product Type and Form  
Electronic file of invoice data

## Rebate Bill for Infant Formula Manufacturer

### Implementation Approaches

- ▶ In the paper environment, one method that the system might use to calculate an estimate of the number of units purchased is to divide the total value of all food instruments that include the rebated item redeemed by the average price of a unit of infant formula (as calculated from prices obtained from vendor price data on infant formula). If the estimated number of units purchased from this calculation is less than the quantity of units issued on the redeemed food instruments, the system should use the estimated number of units purchased to compute the rebate amount. To perform this computation, it is necessary to isolate the rebated item from all other types of food on the food instruments so that the redemption value is not distorted by the purchase of other food items, such as juice and cereal.
- ▶ Another method to estimate the actual number of units purchased in the paper environment is for the system to prepare an exception report which lists all food instruments with the rebated item that have a redemption value which is significantly less than what that food instrument type normally costs. After identifying food instruments with low redemption values, the system should divide these food instruments redemption values in a manner similar to the method above to determine an estimate of the number of units of the rebated item that were purchased.
- ▶ For systems issuing benefits via EBT, transaction data provides the number of units by brand, type, and form of each rebated item purchased. The number of units purchased is multiplied by the rebate for that rebated item type and form to determine the rebate amount to be invoiced.
- ▶ While most State agencies must contract with infant formula manufacturers for rebates, there are some exceptions. A common exception is for very small ITO State agencies that are not required to have a sole-source contract. These State agencies may instead have an open market contract that permits all manufacturers to pay a rebate (usually a much smaller rebate than in single-source contracts). It is possible that a State agency could use the open market system for other WIC foods. In an open market contract, the system should calculate the rebate amount due based on the total number of each type of infant formula purchased (as indicated by the total number of cans prescribed on redeemed food instruments) multiplied by the participating manufacturer's annual share of the infant formula market, multiplied by the rebate amount per can.

### **3.6.3.3 Monitor Rebate Collections**

The system should track the invoicing and collection of manufacturer rebates. The system should record the actual invoice dates and amounts when they are generated by the system. The system should accommodate increases or decreases to the original rebate invoice amount that might arise due to subsequent adjustments.

**Inputs:**

Rebate Invoice Adjustment Reason Code

Rebate Invoice Amount Adjusted

Rebate Invoice Amount Collected

Rebate Invoice Bill Amount

Rebate Invoice Identification Number

**Process:**

- As rebate payments are received, enter the amount collected
- Enter any adjustments made and the reason code and update Rebate data store

**Outputs:**

Screen display and report of Rebate Status