



The Integrity Profile (TIP) Report Fiscal Year 2005

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 retail is the predominant system used to deliver benefits to participants in the WIC Program.

Introduction

The FY 2005 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-nine WIC State agencies are included in the FY 2005 TIP report, which includes 50 geographic State agencies, 34 Indian Tribal Organizations (ITO) State agencies, American Samoa, Guam, Puerto Rico, Virgin Islands, the Northern Mariana Islands and the District of Columbia¹

WIC Food Delivery System Challenges

The WIC Program provides supplemental foods, health care referrals, nutrition services, 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,

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 an apparent duplication of data, but the data does accurately reflect the number of vendors authorized per State agency.

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. 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.

This report includes findings from TIP data analysis by topic. Where appropriate, State agency policy information was used from the FY 2005 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 systems; food instruments; sanctions; and vendor relations and compliance procedures.

The appendices (see page 16) provide State-level information.

Fraud Prevention Through Program Design

Vendor Selection and

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.
- State agencies visit both vendor applicants and currently authorized vendors who are reapplying 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

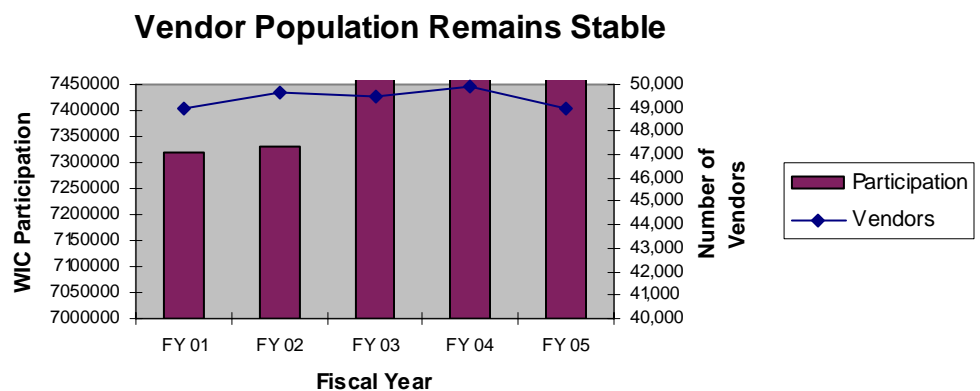
access to food benefits by WIC participants. In FY 2005, 1,164 stores were denied vendor authorization because they failed to meet State agency selection criteria.

- The State agency's selection criteria include criteria mandated by Federal regulations and other criteria developed by the State agency. The Federal criteria include: 1) minimum stock of supplemental foods; 2) business integrity; 3) absence of current Food Stamp Program (FSP) sanction; and, 4) competitive prices.
 - In FY 2005, **72** State agencies used competitive pricing as a selection criterion.
 - **78** State agencies reported that they monitor vendor redemptions to ensure that the prices charged are consistent with the price lists submitted with vendor applications.
 - **86** State agencies used minimum variety and quantity of approved foods as a selection criterion.
 - **76** State agencies used lack of a criminal record or civil judgment as a selection criterion.
 - **75** State agencies used serious vendor violations as a selection criterion.
 - **78** State agencies used lack of Food Stamp Program violations as a selection criterion.
 - **46** State agencies used Food Stamp authorization as a selection criterion.
 - **78** State agencies used lack of Food Stamp disqualification as a selection criterion.
 - **44** State agencies require vendors to provide a variety of other foods.
 - **63** State agencies require vendors to obtain Infant formula only from the State agencies approved list.
 - **38** State agencies require above-50-percent vendors to obtain prior approval to provide incentive items. (Many State agencies do not authorize above-50-percent vendors, or, if they do authorize such vendors, they may prohibit incentive items altogether.)
- By program regulations, the duration of vendor agreements cannot exceed 3 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 all vendors or for new vendors and vendors with a history of program violations.

- The Federal WIC regulations require State agencies to 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 2005, the number of vendors authorized at the beginning of the fiscal year was 45,351.
- The number of new vendors authorized during the fiscal year was 3,909.
- The number of vendors removed from the Program during the fiscal year was 4,802.
 - 327 vendor agreements expired.
 - 3,987 vendor agreements were terminated.
 - 488 vendors were disqualified.
- The number of vendors authorized at the end of the fiscal year was 44,458.

The following graph shows that overall vendor participation levels have remained fairly stable.



Most State agencies (61%) have a system for limiting the number of vendors they authorize.

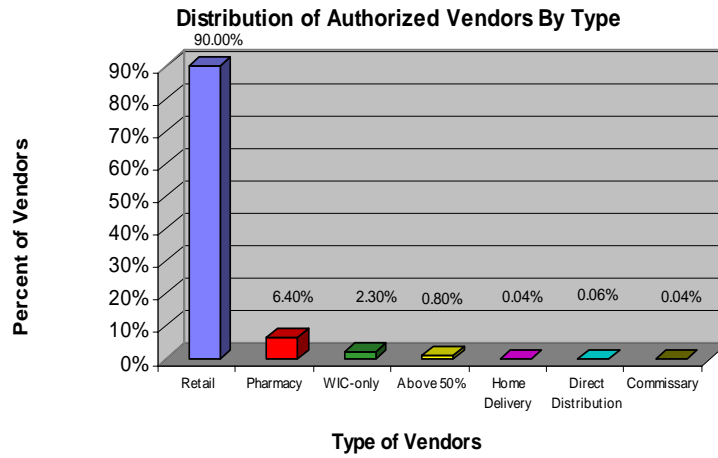
Methods used to select vendors include: (1) price limitations set by the State agency; (2) ratio of the number of participants to vendors; (3) competitive bidding for vendor slots; (4) an absolute or fixed

limit on the number of vendors; (5) minimum stock requirements; (6) convenient store location; and (7) condition of the store.

Approximately 31% of State agencies use a statewide system to limit the number of vendors authorized, and 21% of State agencies limit vendors based on geographic areas within the State. These are practices encouraged by FNS to ensure effective program oversight and to 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. There are five types of vendors authorized under the retail food delivery system. They include regular retail vendors, above-50-percent vendors, WIC-only vendors, commissaries and pharmacies.
 - A regular retail vendor is an individual food store with a fixed location that operates as a retail establishment and for which 50 percent or less of its annual food sales revenue is derived from WIC food instruments.
 - An Above-50-percent vendor is a retail vendor that derives more than 50% of its annual food sales revenue from WIC food instruments.
 - A WIC-only vendor is a special type of above-50-percent vendor that derives all or nearly all of its annual food sales revenue from WIC food instruments. The vendor might also accept Food Stamp transactions or cash but these represent a minimal portion, if any, of its total food sales.
 - A commissary is a retail vendor that is operated by the military.
 - A pharmacy is an individual retail vendor that only provides infant formula, exempt infant formula and/or WIC-eligible medical foods in exchange for food instruments.
 - Home food delivery systems are systems in which authorized supplemental foods are delivered to the participant's home. The rules for retail vendors do not apply to home food delivery systems.
 - 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 rules for retail vendors do not apply to direct distribution systems.



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. State agencies must train vendors on the proper use of the various parts of the food instrument, such as the box for writing in the price, the line for the participant to sign, and the box for the vendor stamp. State agencies can, and do, work closely with representatives from the retailer community in vendor advisory councils to resolve problems that cause errors and in providing training on program requirements.

The Federal WIC regulations require that vendors receive interactive training every 3 years, typically face-to-face with State staff. Vendors must receive non-interactive training annually. 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 State agencies, 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 2005, 41,977 vendors received training. Of those 19,591 received annual training and 22,386 received interactive training² 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.

Food Instruments

Food Instrument Issuance

WIC State agencies issue food instruments to participants to obtain supplemental foods in the form of checks, drafts, vouchers or electronic benefit transfer cards (EBT). “Checks” and “drafts” refers to food instruments which are routed through the banking system from the vendor’s bank account to the State agency’s account with a contractor bank; in such systems, the contractor bank reviews the food instruments for compliance with price limitations and other requirements. “Vouchers” refers to food instruments which the vendor submits directly to the State agency; in such systems, the State agency reviews the food instruments for compliance with requirements. EBT cards are plastic cards similar to a debit or credit card that allow WIC participants to purchase eligible foods from authorized food vendors. Cards include both smart cards with a computer chip and cards with a magnetic strip on the back.

In FY 2005, WIC State agencies used the following types of food instruments:

- Fifty-eight State agencies issue checks.
- Twenty-three State agencies issue vouchers.
- Four State agencies issue drafts.
- Three State agencies issue both checks and EBT cards.
- Two State agencies issue both vouchers and EBT cards.

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

- One State agency issues only EBT cards.
- One State agency issues both checks and vouchers.

Food instruments are issued by State agencies on a monthly, every two months, or every three months basis.

- Twenty-three State agencies issue food instruments on a monthly basis.
- Twenty-three State agencies issue food instruments once every two months.
- Thirty-seven State agencies issue food instruments once every three months.
- Six State agencies issue food instruments every three months or on an as needed basis.

All food instruments must comply with WIC program regulations. Each printed food instrument must contain the following:

- The authorized supplemental foods that can be obtained with the food instrument.
- The first date on which the food instrument may be used to obtain supplemental foods.
- The last date on which the food instrument may be used to obtain supplemental foods.
- The date by which the vendor must submit the food instrument for redemption.
- A unique and sequential serial number.
- A space for the purchase price to be entered.
- A space where participants, parents, proxies or caretakers must sign the food instrument.

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. State agencies often set a “Not-to-Exceed” (NTE) maximum payment amount for food instruments. Many State agencies base NTE amounts on the geographic location of the vendor and other factors such as sales volume. 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 systems in their banking contracts. In a pre-payment 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 after payment has been made to the vendor. In a post-payment system, the State agency seeks reimbursement from the vendor following payment to the vendor for a food instrument. 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.

- State agencies review all food instruments for discrepancies before payment is made to the vendor.

- The most prevalent food instrument errors which State agencies seek to detect are: (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 23,796 (59%) vendors received routine monitoring visits in FY 2005. Of the 23,796 vendors, 29,124 visits were conducted. Forty-seven agencies monitored 50% or more of their vendors. (See WIC-14 in the appendix.)

High-Risk Vendor Identification and Compliance Investigations

In FY 2005, program regulations required State agencies to identify high-risk vendors and 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, prioritizing high risk vendors. State agencies were required to conduct compliance investigations on all high-risk vendors up to the 5 percent minimum.

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.

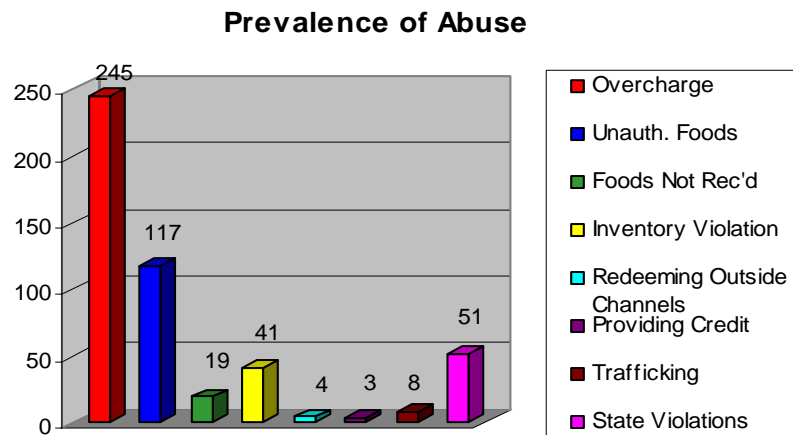
An inventory audit is an examination of food invoices and other proofs of purchase to determine whether a vendor has purchased sufficient quantities of supplemental foods to provide participants with the quantities of supplemental foods specified on food instruments redeemed by the vendor during a given 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 2005, 10,380 vendors were identified as high risk vendors and 38,880 were identified as non-high risk.
- About 13 percent of all vendors nationwide (5,731 vendors) received one or more compliance buys. Of these vendors, 4,026 (70%) were high-risk vendors and 1,705 (30%) 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 4,026 high-risk investigations conducted, 1,778 (44%) were initiated and/or are ongoing and 2,249 (56%) were completed.
 - Of the 1,705 non-high-risk investigations conducted, 421 (25%) were initiated and/or are ongoing and 1,285 (75%) were completed.
- Less than 1% of all vendors (198 vendors) received inventory audits. A total of 201 inventory audits were conducted in 18 State agencies. Of these 198 vendor audits, 160 were conducted on high-risk vendors and 38 were conducted on non-high-risk vendors. (See WIC-15).

Some kinds of violations may result in mandatory Federally-prescribed sanctions. These kinds of violations were identified as a result of routine monitoring and compliance investigations:

- 245 vendors overcharged.
- 117 vendors permitted the substitution of unauthorized food items.
- 19 vendors charged the WIC Program for foods not received.
- 41 vendors submitted reimbursements in excess of documented inventory.
- 4 vendors received/transacted or redeemed food instruments outside proper channels.
- 3 vendors provided credit or non-food items for food instruments.
- 8 vendors were found trafficking food instruments.

Also, 51 vendors committed violations for which the State agency has established sanctions.



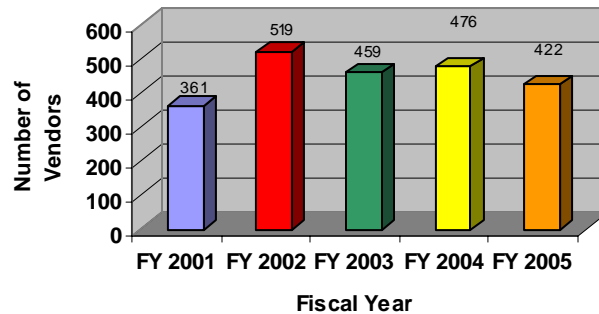
It is important to point out that when a compliance investigation is conducted and a violation is found, disqualification is not always appropriate. Most State agencies conduct compliance buys to provide sufficient evidence of program compliance or noncompliance. It would be incorrect to assume that 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 disqualify a vendor for a single instance of trafficking in food instruments or selling firearms, ammunition, explosives, controlled substances, alcohol or tobacco in exchange for food instruments or for a pattern of overcharging or substitution. State agencies may impose a civil money penalty in lieu of disqualification if disqualification of a vendor would result in inadequate participant access.

Vendor Sanctions and Administrative Reviews

Vendors that violate program requirements may be subject to sanctions in accordance with Section 246.12(1) of WIC program regulations. Vendor sanctions may include administrative fines, disqualifications, or civil money penalties in lieu of disqualification. Vendors may also be disqualified from WIC 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 WIC Abuse
Fiscal Years 2001-2005**



Disqualifications for FSP abuse are not included.

A total of 503 vendors received sanctions during FY 2005. Since investigations are not always completed during a fiscal year, this number includes investigations that had not been resolved in FY 2004, in addition to the vendors receiving compliance investigations in FY 2005.

- 422 vendors were disqualified based on WIC Program violations, as mandated by Federal regulations.
- 15 vendors were disqualified as a result of FSP sanctions
- 51 vendors received sanctions established by State agencies for other kinds of violations.

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 2005, 255 vendors appealed their sanctions (See WIC-23).

Results of Vendor Appeals – FY 2005	
Of the Vendors Requesting an Appeal:	
Decision Status of Appeal	Number of Appeals
Upheld*	100
Overtured	32
Pending	118
Withdrawn	1
*State agency decision upheld	

***WIC and Food
Stamp Program
Coordination***

There are over three times as many FSP authorized retailers as there are WIC vendors. In FY 2005, there were 152,499 FSP vendors and 49,260 WIC vendors. Over 90% of WIC vendors are also authorized as FSP vendors but a large proportion of FSP retailers are not authorized by WIC. Because the two programs authorize and monitor some 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 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 2005, the scope of reciprocal actions was as follows:

- 153 vendors were disqualified from WIC and subsequently referred to FSP for reciprocal action.
- 145 vendors were disqualified from FSP and referred to WIC for reciprocal action. At the end of FY 2005, 15 of these vendors were disqualified by WIC. Since a large proportion of FSP retailers are not WIC authorized, many of these FSP disqualifications referred to WIC may have been imposed on FSP retailers which were not authorized by WIC.

Appendices

WIC-1	Vendors Authorized
WIC-2	Trends in Vendor Authorizations
WIC-3	Types of Vendors Authorized
WIC-4	Vendors Receiving Training
WIC-8	Trends in Vendors Not Selected for Authorization
WIC-10	Status of High-Risk Vendor Investigations
WIC-11	Status of Non High-Risk Vendor Investigations
WIC-12	Summary of High Risk Indicators
WIC-13	Compliance Buys Conducted
WIC-15	Vendors Receiving Inventory Audits
WIC-16	Status of Compliance Investigations
WIC-17	Unauthorized Vendors Accepting Food Instruments
WIC-20	Sanctions Resulting From Serious Program Violations
WIC-22	Summary of WIC/FSP Reciprocal Actions
WIC-23	Status of Administrative Reviews
WIC-30	Selection Criteria for Evaluating Vendors
WIC-31	Food Instrument Issuance