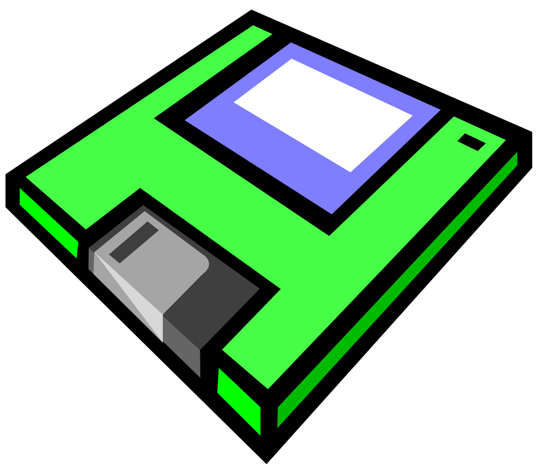
THE INTEGRITY PROFILE (TIP) REPORT

Fiscal Year 2000



Prepared by

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Food and Nutrition Service

U.S. Department of Agriculture

Food **and Nutrition Service**

The Integrity Profile (TIP)

Executive Summary

The Integrity Profile (TIP) report is an analysis of the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) State agency vendor monitoring activities. The authorization, selection, and monitoring of vendors is a State agency responsibility. Annually, State agencies report to the Food and Nutrition Service (FNS) information on vendors monitored and investigated and the actions taken against vendors that violated program requirements. This TIP report covers activities conducted between October 1999 and September 2000. The report discusses the safeguards that exist to prevent vendor fraud and abuse from occurring. These safeguards are an integral part of the WIC food delivery system and play a major role in ensuring program integrity. The Annual TIP report serves an important program purpose in that it provides FNS and other interested parties with specific State-by-State data on WIC vendor characteristics, training, compliance activities and sanctions and promotes good stewardship of federal funds by assisting State agencies in identifying areas for improvement.

In addition to preventative efforts, State agencies have systems in place to detect vendor violations that may occur. Problems are generally detected through routine monitoring visits, compliance buys, or inventory audits. In FY 2000, out of a universe of 49,682 vendors, 36% (17,807 vendors) received routine monitoring visits, 10% (4,982 vendors) received one or more compliance buys, and less than 1% (59 vendors) received inventory audits. Most State agencies conducted routine monitoring visits of 50% or more of their authorized vendors. (See Table 8 in the appendix for a State-by-State breakdown.)

Approximately 22,000 vendors received one or more routine monitoring visits, compliance buys, and/or inventory audits. Of these vendors, 32 percent (7,056 vendors) committed vendor violations. Fifty-two (52) percent committed a single violation and 48 percent committed multiple violations. These violations occurred among both high-risk and non-high-risk vendors. Seven State agencies found trafficking among 22 vendors. State agencies also conducted compliance buys of 87 unauthorized stores and found that 6 percent of these stores accepted food instruments during the buy. It is important to note that WIC State agencies do not routinely conduct investigations to detect trafficking because this violation is difficult to investigate. Thirty-six State agencies reported substitution of unauthorized foods among 1,100 vendors. Nine State agencies reported substitution of non-food items among 37 vendors.

A total of 2,898 vendors received sanctions or received warning letters during FY 2000 as a result of violations found during routine monitoring visits, compliance buys, and inventory audits. Since investigations are not always completed during one fiscal year, this number includes cases that had not been resolved in FY 1999. Sanctions generally range from fines to disqualification. Of the vendors sanctioned in FY 2000, 75 (3%) were disqualified. Five of these 75 disqualifications were based on FSP referrals. (See Tables in the appendix for a State-by-State breakdown.)

Food and Nutrition Service

The Integrity Profile (TIP) Report
Fiscal Year 2000

Background

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

Introduction

The FY 2000 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. All 87 WIC State agencies are included in the FY 2000 TIP report, which includes 50 geographic State agencies, 32 Indian Tribal Organizations (ITOs), American Samoa, Guam, Puerto Rico, Virgin Islands and the District of Columbia.[1]

WIC Food Delivery System Challenges

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

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

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

The following are findings from TIP data analysis by topic. Where appropriate, State agency policy information was used from the FY 2000 State Agency Profile of Integrity Practices and Procedures (PIPP) report. PIPP includes information on vendor selection, limitation and authorization criteria; high-risk identification systems; pre-and post-payment edit systems; food instruments; sanctions; and vendor relations and compliance procedures. The appendices (as per page 15) provide State-level information.

Fraud Prevention Through Program Design

Vendor Selection and Authorization

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

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

- The majority of State agencies (97%) visit both vendor applicants and currently authorized vendors to verify information submitted during the application/authorization process.

- Not every store that applies for vendor authorization is selected. Stores must meet or exceed the State agency's vendor selection criteria to be selected. In FY 2000, 1,166 stores were denied vendor authorization because they failed to meet State agency selection criteria.

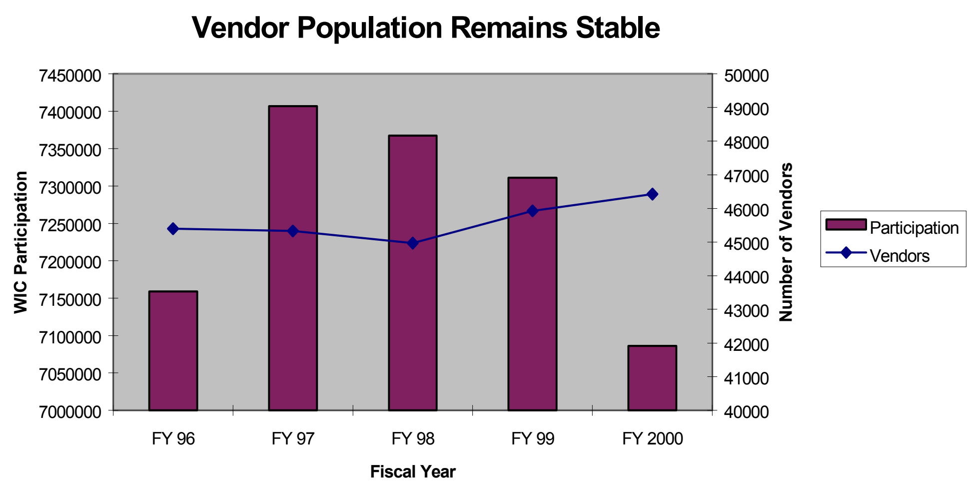
  - As a cost-containment measure, many State agencies require stores to compete for vendor authorization based on the prices they charge for supplemental foods. In FY 2000, competitive pricing was included as a selection criterion by 87% of all State agencies, and 83% of State agencies monitor vendor redemptions to ensure that the prices charged are consistent with the price lists submitted with vendor applications.

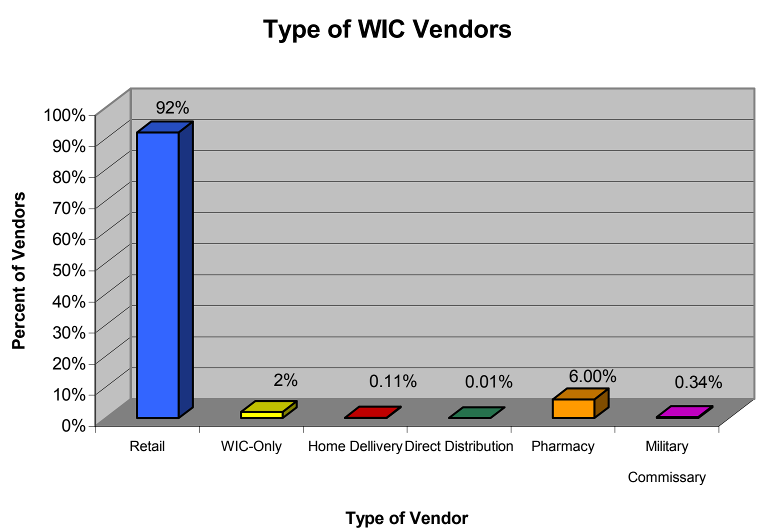
- By program regulations vendor agreements cannot exceed 3 years. When a vendor's agreement expires, the vendor must reapply and be selected again to continue authorization. In some State agencies, shorter agreement periods are set for new vendors and vendors with a history of program violations.

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

- In 1989 (the first report year this data were collected) the number of vendors was 47,241 and the average number of participants per vendor was 91. In 2000, the number of vendors was 49,682 and the average number of participants per vendor was 163. Although the number of participants has increased substantially in the past 10 years, the number of vendors has remained relatively stable.

- Most State agencies (66%) have a system to limit the number of vendors they authorize. Methods used to limit the number of vendors include: vendor food prices cannot exceed limits set by the State agency; ratio of the number of participants to vendors; competitive bidding for vendor slots; absolute or fixed number of vendors; minimum stock requirements; prices charged the program must be within 10 percent of the lowest priced store in the community; vendor must be conveniently located; and, vendor must keep store in good condition. Approximately 38% of State agencies use a system to limit the number of vendors authorized, and 28% of State agencies limit vendors based on geographic areas within the State. These are practices encouraged by FNS to ensure effective program oversight and mitigate the chances of fraud and abuse.





Training

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

The periodic presence of State agency representatives in stores helps to deter vendor fraud and abuse. The State agency conducts on-site, pre-authorization visits to all new vendors and routine monitoring visits to vendors throughout the year. Vendors generally receive vendor training annually and interactive vendor training on a periodic basis.

Vendor training may include 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. Examples of methods used for annual training include: training videos and training newsletters.

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.

- The majority of State agencies (97%) visit both vendor applicants and currently authorized vendors to verify information submitted during the application/authorization process.

- Vendor training is provided to store owners, managers, and/or cashiers through on-site visits, group training sessions, newsletters, and videos. In some States, vendor training includes written tests or simulated WIC transactions that verify the level of understanding of program requirements.

- In FY 2000, 57% of all vendors (28,532 vendors) received interactive training[2] on *all* of the following basic subjects:

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

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

Systems to Detect Non-Compliance With Program Rules

Pre-payment and Post-payment Edits

State agencies are required to design and implement a system to review food instruments submitted by vendors for redemption to detect vendor overcharges and other errors. Such systems must detect the following errors: vendor overcharges, purchase price missing or altered, participant signature missing, vendor identification missing, and redemption outside of valid dates. This review must examine all or a representative sample of the food instruments and may be done either before or after the State agency makes payments on the food instruments. Many State agencies use pre-payment edit systems to review food instruments for errors prior to making payments to vendors. State agencies that use a banking institution to process their food instruments include such pre-payment edits in their banking contracts. In a pre-payment edit system, when an error that affects the payment to the vendor is detected, 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. Some State agencies use a post-payment edit system in which they review food instruments for errors after payment has been made to the vendor. In a post-payment system, when an error that affects the payment to the vendor is detected, the State agency will issue a claim against the vendor to recover the funds. In both pre- and post-payment edit systems, vendors are provided with the opportunity to justify or correct errors on food instruments submitted for redemption.

- Most State agencies (81%) review all food instruments for errors and other discrepancies before payment is made to the vendor.

- The most prevalent food instrument errors that State agencies identify are: (1) signature and/or counter signature missing, (2) redemption outside valid dates, (3) altered valid date, and (4) altered purchase price.

Routine Monitoring

In FY 2000, program regulations required State agencies to conduct routine monitoring visits on at least 10 percent of their vendors annually. New program regulations require 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 store's sanitary conditions.

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

A total of 17,820 (36%) vendors received routine monitoring visits in FY 2000. Forty-five State agencies monitored over 50% of their vendors.

- Where routine monitoring was the <u>*only*</u> form of vendor monitoring used:

  - 24 vendors provided unauthorized food items and 4 provided non-food items in exchange for food instruments.

  - 1,940 vendors committed other program violations not identified in TIP.

High-Risk Vendor Identification and Compliance Investigations

State agencies have a great deal of latitude in how they manage their vendors. In FY 2000, program regulations required States to have systems in place to identify high-risk vendors and to have the capability to conduct compliance buys. New program regulations require States to conduct compliance buys on a minimum of 5% of the number of vendors authorized by the State agency as of October 1 of each fiscal year. Each State agency must conduct compliance investigations on all high–risk vendors up to the 5 percent minimum.

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

A compliance buy means a covert, on-site investigation in which a representative of the Program poses as a participant, parent or caretaker of an infant or child participant, or proxy, transacts one or more food instruments, and does not reveal during the visit that he or she is a program representative.

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.

- Of the 22,789 vendors receiving routine monitoring, and/or compliance investigations, 5,675 (25%) were identified as high-risk vendors.

- About 10 percent of all vendors nationwide (4,977 vendors) received one or more compliance buys. Some of these vendors were non-high-risk vendors that were investigated as part of the State agency's effort to validate their high-risk vendor identification system.

  - ➢ 69% of the vendors receiving compliance buys (3,450 vendors) were high-risk; and 31% were non-high-risk (1,532 vendors).

- In addition to the vendors receiving compliance buys, 87 *unauthorized* stores received one or more compliance buys in six State agencies. These stores were suspected of conspiring with vendors to defraud the WIC Program. Approximately 7% of these stores accepted food instruments during compliance buys.

  - Less than 1% of all vendors (59 vendors) received inventory audits. Inventory audits were conducted in 10 State agencies (see Appendix 11).

  - Where inventory audits were the *only* form of monitoring used:

    - ➢ 11 of the 28 vendors receiving inventory audits were found to be violating program requirements.

Results of Vendor Monitoring Efforts

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

- 22,848 vendors received one or more routine monitoring visits, compliance buys, and/or inventory audits. Of the 22,848 vendors, 13,798 (60%) had no violations and 9,050 (40%) committed program violations. Eighty percent of these 9,050 vendors committed a single violation, and 20% committed multiple violations.

  - 1,288 vendors overcharged.

  - 1,100 vendors permitted the substitution of unauthorized food items. These violations were reported by 36 of the 87 State agencies.

  - 37 vendors permitted the substitution of non-food items. These violations were reported by 16 State agencies.

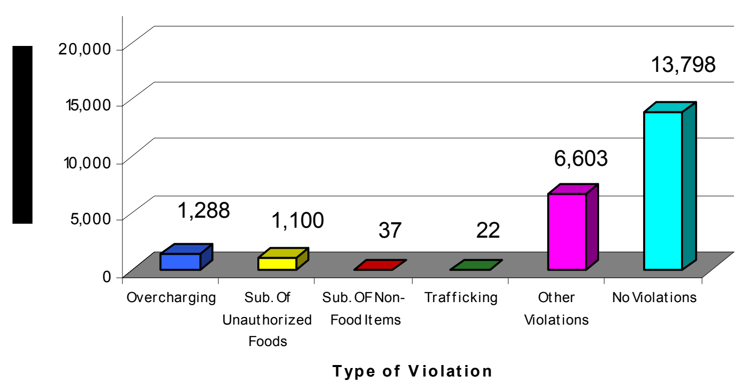
  - 22 vendors committed trafficking violations. These violations were reported by 4 State agencies.

  - 6,603 vendors committed other violations. These other violations were reported by 53 State agencies.

Note: Many of the vendors noted in the bullets above committed multiple violations.

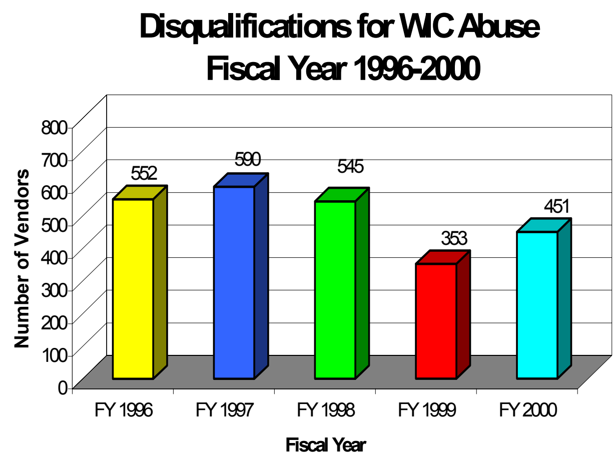
It is important to point out that when a compliance investigation is conducted and a violation is found, disqualification is not always appropriate. Most State agencies conduct compliance buys to provide sufficient evidence of program compliance or noncompliance. It would be incorrect to assume that every vendor who commits a violation during a compliance buy will be disqualified.

Prevalence of Fraud and Abuse



Vendor Sanctions and Administrative Reviews

Vendors that violate program requirements may be subject to sanctions in accordance with Section 246.12(l) of program regulations. A disqualified vendor may reapply after the disqualification period has expired. Vendor sanctions may include administrative fines, disqualifications, or civil money penalties in lieu of disqualification. Vendors may also be disqualified or receive a civil money penalty based on a FSP disqualification.



Disqualifications for Administrative Reasons and FSP Abuse are not included.

A total of 2,898 vendors received sanctions during FY 2000. Since investigations are not always completed during a fiscal year, this number includes investigations that had not been resolved in FY 1999, in addition to the vendors receiving compliance investigations in FY 2000.

- 451 vendors were disqualified based on WIC Program violations
- 81 vendors were disqualified as a result of FSP sanctions
- 44 vendors were disqualified for administrative reasons
- 2,322 vendors received other sanctions

In FY 2000, 525 vendors appealed their sanctions (see tables 16 and 17). Most administrative review decisions were ruled in the State agency's favor (upheld) rather than in the vendor's favor (overturned).

Results of Vendor Appeals – FY 2000	
Of the Vendors Requesting an Appeal:	
Decision Status of Appeal	Number of Appeals
Upheld*	268
Overturned	24
Pending	120
Withdrawn	113
*State agency decision upheld	

- [3]About 91% of prior year administrative review decisions were ruled in the State agency's favor.

WIC and Food Stamp Program Coordination

There are over three times as many FSP authorized retailers as there are WIC vendors. In FY 2000, there were about 157,350 FSP retailers and about 48,000 WIC vendors. Although the exact figure is unknown, over 75% of WIC vendors are also authorized as FSP retailers. Because the two programs authorize and monitor many of the same retailers/vendors, there is an opportunity for coordination between the FSP and WIC State agencies in monitoring retailers/vendors.

Beginning May 17, 1999, Federal regulations required 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, 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 2000, the scope of reciprocal actions was as follows:

- 554 vendors were disqualified from WIC and subsequently referred to FSP for reciprocal action
- 34 vendors were withdrawn from FSP based on WIC referrals
- A number of vendors were disqualified from FSP and subsequently referred to WIC for reciprocal action and disqualified from WIC based on the FSP referrals. However, due to problems in verifying the exact number, the specific figures can not be provided in this report.

[3] Source: TIP 1999 Aggregate Data

Types of Authorized WIC Vendors and WIC Business Volume

Program regulations permit WIC State agencies to operate up to three types of food delivery systems: retail, direct distribution, and home food delivery systems.

- In a retail food delivery system, participants purchase their supplemental foods at authorized retail grocery stores (defined as "vendors" in program regulations).

- In the direct distribution food delivery system, participants obtain their supplemental foods from a central warehouse or other distribution facility under State agency contract , and

- In a home food delivery system, supplemental foods are delivered to the participant's home by a home delivery contractor under State agency contract.

Authorized vendors may include military commissaries and pharmacies. Authorized pharmacies only provide infant formula , exempt infant formula, or WIC-eligible medical foods. In recent years, a few State agencies have begun to authorize WIC-only stores. These vendors only stock WIC-approved foods.

- About 45,434 vendors were authorized to accept WIC food instruments as of October 1, 2000. New authorizations after October 1 totaled about 4,248 bringing the cumulative number of vendors authorized during FY 2000 to 49,682. The number of vendors that came off the program during this time period was 2,099.

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

Vendor Type	Avg. Mo. WIC Redemp.	Avg. Mo. Redemp. Per Vendor	Number of Vendors	Pct. of All Vendors	Pct. of Total Redemp. Volume
Retail	$334,782,677	$8,292	40,370	81.25	89.58
WIC-only	$30,860,684	$38,672	798	1.60	8.25
Home Delivery	$579,190	$10,342	56	.11	.15
Direct Distribution	$2,185,671	$312,238	7	.01	.58
Pharmacy	$3,680,654	$1,349	2,728	5.49	.98
Military Commissary	$1,620,883	$9,591	169	.34	.43

Notes: Redemptions were not reported or were reported as zero for 7,998 vendors; therefore, the figures in the above table represent the 41,684 vendors for which redemption data were available.

- Eighteen State agencies authorize WIC-only vendors. However, of the total 798 WIC-only vendors nationwide, the majority are located in four States: Puerto Rico (269), California (303), Texas (89), and Florida (78).

- Average monthly redemptions were 4 times greater in WIC-only vendors than other retail vendors.

WIC/FSP Store Characteristics – Firm Type

The FY 1998 and FY 1999 TIP reports include information on WIC/FSP store characteristics by firm type. The FY 2000 report does not include this information. FNS has chosen not to do this analysis every fiscal year because the information does not show any major changes between reporting periods. Therefore, this data will only be analyzed once every four years. The information will once again be analyzed in FY 2003 and will be included in the FY 2003 TIP report.

Appendices