

Chapter IV

Transaction and Redemption Controls

WIC participants typically obtain the supplemental foods prescribed for them by presenting their food instruments to an authorized vendor. As described in the preceding chapter, the WIC agency records the participant's prescription on the food instruments and issues them to the participant. The vendor records the purchase amount on the food instrument and presents it to a bank or the WIC agency for payment.

The participant is responsible for selecting only the foods listed on the food instruments for purchase, and for making sure that the specific brands, sizes, and varieties are approved. The vendor (in particular, the cashier) is also responsible for enforcing these requirements. In addition, the participant and the vendor are both responsible for ensuring that the purchase amount on the completed food instrument is correct, and that the WIC Program is not charged for any items listed on the food instruments that are not taken by the participant.

Because there is no direct involvement of WIC staff in the process of transacting food instruments for WIC-approved foods, this is a point particularly vulnerable to fraud and abuse. Controls to prevent fraud and abuse at this point typically involve the cooperation of participants or vendors. In deciding what controls to use, State agencies must weigh several factors. These include: what practices are reasonable to ask of participants and vendors, who has the most to gain by complying, who has the most to lose by noncompliance, and what measures are available to detect noncompliance.

This chapter discusses the controls that can be used by State agencies to prevent fraud and abuse in the transaction and redemption processes. It addresses the feasibility of implementation of these controls and issues that must be considered prior to their implementation, particularly the need to control for fraud and abuse in such a way that participation is not impeded.

Some types of participant fraud and abuse involve collusion with the vendor. Vendors can prevent certain types of participant fraud and abuse from occurring by properly following transaction procedures. For these reasons, this chapter presents a brief discussion of controls that focus on preventing and detecting vendor fraud. The main focus of the chapter is on the transaction and redemption controls that directly address fraud and abuse by participants and staff, in keeping with the focus of this report.

4.1 Background

This section summarizes the vulnerabilities in the transaction and redemption process, the applicable provision of WIC Program regulations, and the prevalence of basic controls among State agencies.

Vulnerabilities of the Transaction and Redemption Processes

In the WIC transaction process, participants may commit any of several types of fraud or abuse. Some participant violations are minor abuses:

- Using WIC food instruments for the wrong size, variety, or brand of food.
- Using WIC food instruments before or after their designated use dates.
- Acting in an abusive manner toward a store employee.

The more serious types of participant fraud and abuse include:

- Using food instruments for non-WIC foods or non-food items, with the most serious violation being the purchase of alcohol or tobacco products
- Selling food instruments to vendors or other persons for cash (i.e., trafficking)
- Returning or selling foods purchased with WIC benefits to obtain cash or nonfood items
- Allowing an unauthorized person to use one's WIC food instruments
- Using counterfeit food instruments.

Most of these forms of fraud and abuse involve the cooperation of vendors, through carelessness or intentional collusion. Because the vendors represent the “funnel” through which fraudulent transactions must pass, much of the effort to prevent participant fraud and abuse focuses on ensuring vendor compliance.

In addition, several forms of fraud and abuse may be perpetrated by vendors without the knowledge of participants:

- Charging more than the shelf prices when foods are purchased with WIC benefits.
- Charging for items on food instruments that are not taken by participants.
- Altering food instruments after the sale to increase the redemption value.
- Imposing special conditions on WIC participants, such as not accepting WIC food instruments in lanes where other non-cash payment is allowed.

Local WIC staff usually have few opportunities to commit fraud or abuse in the transaction and redemption processes, because these are outside the scope of their responsibility, unless they are involved in authorizing vendors. State or local WIC staff who authorize vendors may engage in collusion with them to overlook or facilitate violations. The principal risk of WIC staff involvement in transaction fraud is that staff may transact unclaimed, unauthorized, or voided food instruments with the cooperation or collusion of a vendor. The controls against this

vulnerability are discussed in the chapter on issuance controls. Other controls on staff fraud are addressed in the chapter on local agency management and oversight.

Key Provisions of WIC Regulations

WIC regulations concerning the transaction and redemption of food instruments (7 CFR 246.12) establish numerous requirements for the processes, as summarized below.

- The State agency is responsible for educating participants and proxies on the proper use of food instruments.
- A participant or an authorized representative must sign the food instrument at checkout as proof that the charge is correct and the transaction is authorized.
- Only vendors authorized by the State agency may transact and redeem food instruments.
- Vendors must provide only the authorized foods specified on the food instrument.
- Vendors must provide WIC foods at (or less than) the current price charged to other customers.
- Vendors must participate in training on WIC procedures and provide training to cashiers or other staff.
- Vendors must be accountable for the actions of their employees in reference to transaction of food instruments.
- Vendors must be monitored for compliance with WIC Program rules.
- The State agency may conduct compliance purchases.
- Retail vendors must provide access to shelf price records.
- The State agency may specify a maximum purchase price for individual foods or for food instruments, such that the maximum is higher than the actual cost of the food but low enough to prevent loss of funds.
- State agencies must implement requirements to ensure that the price of the foods purchased is documented on the food instrument at the time of transaction.
- State agencies must implement requirements to ensure that the redeeming vendor is identifiable on every food instrument.
- State agencies must implement a system to detect overcharges and identify vendors with unusual amounts of overcharges.

Data on Participant Redemption Fraud

Previous studies have examined fraud and abuse in the transaction and redemption process, and the controls in place to detect and prevent it. According to the U.S. General Accounting Office, between October 1996 and September 1998, an estimated 2,049 participants were known to have exchanged food instruments for nonapproved or nonfood items.⁴ An estimated 233 participants were known to have exchanged food instruments for cash. Dollar amounts of the losses involved were not included. These numbers are quite small relative to the 7.4 million WIC participants in 1998, but they represent only the instances of participant fraud that were conclusively established. The GAO data indicate that a much larger proportion of vendors were found to have committed WIC fraud or abuse. The GAO survey found that State agencies had identified 3,771 vendors as having committed fraud or abuse, or about 9 percent of all vendors, over the period from October 1996 to September 1998.

4.2 Fundamental Choices Shaping the Transaction and Redemption Processes

State agencies make some fundamental choices that shape the transaction and redemption process and the kinds of controls that can be used. These choices include:

- Does the State agency use retail delivery?
- Do participants have to choose a specific vendor or can they transact food instruments at any authorized WIC vendor?
- Do vendors submit food instruments through the banking system or to the WIC agency or its contractor?

The food delivery method is one of the fundamental choices made by State agencies and is the choice that shapes the controls needed in the transaction and redemption processes. Most State agencies use the retail delivery system, so their processes and controls relating to transaction and redemption must take into consideration the external element in the process: the vendor. As neither an employee of nor a participant in the WIC Program, the vendor represents a third party whose compliance is critical to the integrity of the process. WIC staff cannot routinely observe the interactions between participants and vendors, so the retail delivery system requires controls that prevent fraud through education and deterrence, buttressed by systems to detect and prevent fraud through the monitoring of redemption data and visits to targeted stores.

State agencies make decisions about where a participant can transact food instruments. Vendors are authorized through a contracting process. As an additional control, a State agency can require that participants choose a single vendor for all their instrument transactions. Such a system is intended to deter trafficking and other violations and make them easier to identify. A drawback of this system is that each time a participant changes vendors or a vendor leaves the Program,

⁴U.S. General Accounting Office (GAO), *Food Assistance: Efforts to Control Fraud and Abuse in the WIC Program Can Be Strengthened*.

new food instruments must be issued to replace the unused ones, and this represents a burden to local agencies. Another factor is the convenience for participants when they can shop at any authorized WIC vendor. In addition, vendors may be concerned that vendor-specific vouchers may limit competition for WIC customers. For these reasons, most agencies do not issue vendor-specific food instruments.

State agencies must decide how to handle submission of food instruments by vendors for payment. Payment of food instruments can be processed by the State WIC agency, or by a company contracted by WIC to perform this service. Food instruments can also be processed through a banking system. As discussed in the chapter on issuance, the former system uses vouchers and the latter system uses checks. If the State WIC agency processes the food instruments for payment, it has the most direct control over how this process works. If the WIC agency contracts an outside company to perform this function, there is less day-to-day control over the process, but the State WIC agency has similar capabilities to ensure that fraud control checks are performed before vendors are paid.

The State WIC agency can set performance requirements for the contractor and conduct audits to verify compliance. If food instruments are being processed for payment through a banking system, the State WIC agency benefits from the security and integrity provisions of that system, but the State agency may have to compromise some desired requirements so that the process fits within the bank’s established processing system. Due to the large volume of food instruments that must be processed, controls must be designed with efficiency of processing in mind, regardless of who is doing the processing.

4.3 Controls on Participant Fraud and Abuse in Transaction and Redemption

Table 4–1 summarizes the principal controls for preventing and detecting fraud and abuse by participants in transacting and redeeming WIC food instruments. The first column identifies the WIC Program requirements and the basic controls that are widely or universally used. The second column identifies enhanced controls that can further improve program integrity. Some of these enhanced controls are appropriate for most State agencies, while in other cases there are multiple options for enhancing controls. As discussed later in this chapter, these controls are supplemented by other controls that target vendors involved in fraud and abuse.

Table 4–1—Requirements and controls on participant fraud and abuse in the transaction and redemption process

WIC requirements and basic controls	Enhanced controls	Benefits and costs of enhanced controls
Requirement: Education of participants about proper use of food instruments		
Basic control: Provide list of authorized foods	Options: a) Provide brochure with pictures of authorized foods b) Use instructional video or live instruction at certification c) Use samples of authorized foods in	Helps participants identify the correct foods to purchase. Helps educate participants with limited literacy.

	<p>nutrition education</p> <p>d) Use quiz at the end of instruction</p>	<p>Confirms participants' understanding of instruction.</p> <p>These options represent an increased cost to the program in dollars, but save staff time through group education and reduced need for counseling.</p>
<p>Requirement: Participant or authorized representative signs food instrument at checkout as proof of correct charge and authorized transaction</p>		
<p>Basic control: Provide WIC ID folder signed by participant and authorized representatives at WIC office</p>	<p>Options for establishing authorized signature for vendor to check at transaction:</p> <p>a) Provide WIC ID card with signature to each authorized shopper</p> <p>b) Participant or authorized representative signs food instruments at issuance as well as at transaction</p>	<p>Separate ID for each shopper is more secure and can make transaction of WIC benefits less obvious; requires WIC office to issue ID to each shopper, a minor additional cost to the Program.</p> <p>Most secure control against unauthorized transactions, but complications arise when the person signing instrument at issuance can not do shopping; requires extra time at issuance.</p>
<p>Basic control: Specify maximum value for food instrument (printed on instrument or available only to WIC redemption authority via database)</p>	<p>Set maximum value according to food package</p> <p>Use current price information to set maximum value</p>	<p>Fine-tuning maximum value helps prevent overcharges and alteration of instruments. Requires more information and produces more "false positives"</p>
<p>Requirement: State Agencies must establish procedures designed to control participant violations</p>		
<p>Basic control: Establish a process for reporting fraud and abuse</p>	<p>Options:</p> <p>a) Provide toll free number to register complaints</p> <p>b) Implement complaint form for use by staff receiving reports of fraud</p>	<p>Provides staff, participants, and vendors with a vehicle for reporting fraudulent activity or expressing concerns when fraud or abuse is suspected.</p> <p>Requires investment of staff time to receive, evaluate and investigate complaints.</p>

These controls are described in detail below.

Education of Participants

When a participant has been certified for WIC, staff members are required to educate the participant about the policies, procedures, rules, and regulations of the Program. The part of this education relevant to the food instrument transaction process can serve as a control against intentional or unintentional fraud and abuse.

Participants must be trained in the proper use of WIC food instruments, but this education takes time. The agency must ensure that its education of participants does not disrupt clinic flow. New WIC participants must learn a lot of rules, regulations, and procedures and remember them over

the following months. The foods approved for WIC purchases can be confusing, especially to new participants. Even veteran participants may need follow-up training, because the list of approved foods can change from time to time.

Proper, repeated education of WIC participants is important to ensuring that only approved foods are selected. At a minimum, the State agency produces a list of approved foods, specifying brands, varieties, and sizes where appropriate. The local agency distributes this list to participants when they enter the Program and when the list is updated. An enhanced version of this control is the provision of a brochure with pictures of approved WIC foods, making it easier for participants with limited literacy skills to recognize the right packages. These brochures can be made of a size that can be easily folded and kept in the WIC ID folder for reference while shopping. The inclusion of pictures on the brochure increases the cost of production, but the payoff is an increased likelihood that participants will select only WIC-approved foods, as well as making the Program more user-friendly for participants.

Food lists, even with photographs, and other handouts are not likely to provide adequate instruction, so WIC staff need to explain shopping procedures and verify that participants understand. This instruction may be done during the certification process, but time and other considerations are likely to limit the effectiveness of this approach, particularly where client flow is a major concern. Several alternatives can enhance the effectiveness of the training for participants on transaction procedures:

- Providing live instruction in a classroom setting
- Using samples of approved and nonapproved foods in a simulated grocery setting, especially when integrated with nutrition education about the value of the foods
- Using a video to show the entire process of transaction, including selection of authorized WIC foods, separating foods at checkout, and using food instruments to pay for them
- Including a quiz to test participants' knowledge.

Group education through use of classroom instruction and/or use of a simulated grocery setting requires that agencies set aside room for classes or grocery samples, at least for a portion of the day. The group education approach allows for the education of multiple participants by one staff member, resulting in a more efficient use of staff time. Education of participants serves as a control against inadvertent purchase of the wrong foods through ignorance, thereby reducing the amount of staff time needed for counseling. Repeated education also provides strength to the sanctioning process if a repeat offender claims ignorance of the approved foods.

Check-out Procedures

According to WIC Program regulations, the total price of the foods being purchased must be recorded on the food instrument, and the instrument must be signed by the participant or authorized representative as confirmation of the price and as evidence of who used the instrument. As a basic control for ensuring that the food instrument was transacted by the proper

person, agencies frequently provide participants with WIC ID folders. These folders are signed by the participant and any authorized representatives while at the clinic, so vendors can verify the signature on the food instrument against that on the folder.

The State agency may seek to enhance controls at check-out by having the participant fill in the price on the food instrument before signing it, because then overcharging will require the cooperation of the participant. This rule is difficult to enforce, however, and may create problems when participants record the wrong amount. Moreover, if the cashier overcharges when ringing up the WIC items, it will be difficult for the participant to detect the overcharge.

A variety of controls are used to enhance the signature process as a way of verifying that the person presenting the food instruments is authorized to do so. These procedures must accommodate situations when the participant (or the participant's normal caretaker) cannot shop and must send a proxy.

- The local agency may issue a WIC ID card to each participant or other authorized shopper, with the user's signature recorded at the local agency. These cards can be designed so that they are recognizable to cashiers but less obvious than a WIC ID folder to other shoppers, as a way to reduce the likelihood of the participant's experiencing stigma because of being identified as on WIC. Issuance of a separate card to participants and their authorized representatives represents a slightly increased amount of staff time. Issuing multiple cards to each family may increase supply costs, depending on the card design, but shopper cards can be made more tamper-resistant than WIC ID folders.
- The participant or proxy may sign the food instruments twice: once upon receipt at the local agency and once at the store after the price is filled in. This approach provides the greatest assurance that the person signing the food instrument at the store is authorized to do so. However, many State agencies have not adopted this practice because it increases the time to issue food instruments, it requires special procedures when the participant cannot shop, and there is doubt about how well cashiers check the signatures.

Vendors must provide receipts to participants for WIC purchases. As a control against fraudulent returns of WIC foods for credit or cash, the State agency may require vendors to mark the receipts as WIC purchases and therefore valid only for exchange of unusable foods. This control represents no additional cost to the Program, and some vendors will do this automatically, if they compute a subtotal for WIC items or use scanners programmed to identify WIC items. There is good reason to doubt, however, that the stores most likely to collude with participants in this form of fraud will comply with the requirement to mark receipts.

Process for Reporting Participant Fraud and Abuse

Perhaps the best way to detect participant fraud and abuse in the transaction and redemption processes is through an established process for tips or complaints from fellow participants, vendors, staff, and community members. As noted earlier, WIC staff cannot routinely observe the transaction process, although they can be trained to be observant when they are in grocery stores for professional or personal reasons. Mechanisms to detect vendor involvement in

participant fraud generally do not pinpoint the specific participants who are involved, because these mechanisms rely on statistical information and compliance buys.

The basic process for receiving tips and complaints about participant fraud is to have staff record the information and forward it to the appropriate unit or individual for investigation. The information may be received by local or State agency staff. One way to enhance this process is to provide standardized forms and training to all staff members who may receive complaints; another step is to require local agencies to report complaints to the State agency. Yet another approach is to formally enlist vendors by providing complaint forms to them, so that they can document instances of attempted participant fraud or abuse for the local or State agency.

Each of these options requires an additional investment of staff time, both on the part of the staff who receive the complaint and on the part of the staff members who follow up or investigate. This entails either diversion of staff time from another task, or hiring of additional staff to handle complaints. If the State agency has a toll-free telephone number for WIC information, publicity about this line can encourage its use for reporting fraud, provided that the staff members answering the line have the appropriate training and procedures are established for routing complaints.

Participants can be informed of procedures for reporting complaints as a part of their basic Program education, and vendors can be informed as part of their routine training. This education represents a minimal addition to the amount of staff time required during the education process. As discussed in the next chapter, allegations of participant fraud and abuse may be investigated by either the local or State agency, depending on the nature of the allegations and the State agency's preferred approach.

4.4 Vendor Transaction and Redemption Controls

This section summarizes the controls commonly used to assure the integrity of vendor participation in the WIC Program. As noted earlier, the controls to prevent and detect vendor fraud and abuse were not a focus of this study, but they are relevant because they indirectly serve to reduce participant fraud and abuse. Additional information about vendor controls can be found in the FNS database of vendor integrity practices and activities (The Integrity Profile, or TIP) and related reports. In addition, FNS has a study under way to document vendor integrity practices and to estimate the extent of certain types of vendor fraud and abuse.

Data on Basic Vendor Controls

The following table provides statistical information on the prevalence of some basic transaction and redemption controls involving vendors.

Table 4–2—Background statistics on food instrument transaction and redemption controls

Transaction or redemption practice	Percent of State agencies and ITOs
Compliance buys conducted by State agency	51

Compliance buys conducted by contractors	17
Perform trafficking buys	29
Test for major substitutions (alcohol, tobacco etc.)	39
Maximum value printed on food instruments	77
Hidden maximum value for food instruments	42

Source: USDA, Food and Nutrition Service, *National State Agency Program Integrity Profile, 1998*. Responses were from 52 State agencies and 25 ITOs.

Summary of Vendor Integrity Practices

The following practices are used by State agencies to prevent and detect fraud and abuse by vendors:

- Review of vendor qualifications, licensing, and previous WIC experience prior to contracting
- Training
- Monitoring
- Identification of high-risk vendors
- Compliance buys and invoice audits

Vendor Authorization and Training

Vendors are approved by State WIC agencies to transact and redeem WIC food instruments through an application process that culminates in a contractual agreement between the vendor and the WIC agency. A major focus of this process is assuring that vendors are legitimate food retailers who can be expected to comply with WIC procedures. Applicants are reviewed prior to acceptance, and WIC staff members check their qualifications and licenses and review any prior WIC experience before making a decision.

WIC staff members also visit the stores to confirm the information provided on the application and to obtain additional information needed to assess the vendor's application, such as stock and prices of WIC foods. Vendors with excessive prices for WIC foods may be denied authorization. Vendor agreements are periodically renewed, usually every 1-3 years. Upon authorization, vendors must participate in training to ensure that they understand the rules and procedures associated with transaction and redemption of food instruments. These controls are designed to select legitimate vendors and ensure that they understand the policies of WIC well enough to perform their part of the transaction and redemption processes effectively.

One potentially important factor in the selection of vendors is the presence and use of automated scanning equipment to identify items and their prices. At a minimum, scanners reduce the incidence of pricing errors and the discretion of cashiers to overcharge when processing a WIC

purchase. Some vendors program their scanners to identify authorized WIC foods and to require another form of payment for non-WIC purchases. This added programming aids cashiers in identifying unauthorized foods at checkout and serves as a control for the prevention of fraud and abuse at the transaction level.

State agencies frequently gather information on whether stores that want to be WIC vendors use scanners. To the extent that the presence of scanners and the practice of separating WIC items via scanner data can be considered as a criterion in the vendor authorization and reauthorization process, program integrity can be enhanced. It is unlikely that a State agency could enforce a requirement that vendors use scanners, because of the costs of installing and maintaining these systems. Nevertheless, any way that the agency can promote scanner use, through preference in the authorization process or through education about the benefits to the vendor, will serve to enhance the integrity of the transaction process.

Vendor Monitoring

State WIC agencies monitor transaction and redemption of food instruments to ensure that only authorized vendors are accepting WIC benefits and that the amounts the vendors are requesting for payment are consistent with the WIC foods they distributed. The food instruments themselves are subject to review after the vendors submit them. They are to be checked for signature, acceptable amount, valid dates of use, and a vendor stamp or endorsement to ensure that vendors are submitting valid food instruments.

State agencies are required to address the purchase price of WIC foods in their vendor agreements. One way for agencies to address this issue is to establish a maximum price that vendors may charge for food instruments. As indicated earlier, 77 percent of State agencies set maximum values for their food instruments. Usually, the MIS is programmed to detect excessive prices either before payment (when the State agency or its contractor processes food instruments) or after payment (when food instruments are processed through the banking system). Depending on the procedure, instruments that exceed the maximum value may be rejected, the vendor may be paid the maximum in lieu of the amount recorded on the instrument, or the excess amount may be charged back or deducted from future redemptions. In any case, the State agency avoids paying more than an acceptable amount for WIC purchases, reducing losses due to clerk errors and intentional overcharging.

Some State agencies set a standard maximum value for all food instruments as a check against gross overcharging. As an enhanced control, a State agency can use price data to set a maximum value for each instrument. This approach uses price data from vendor surveys, site visits by State staff, or past redemptions, with the maximum price set at a certain percentage above the average. Some flexibility in pricing is usually provided to allow for fluctuations in the market, differences in pricing between stores (i.e., large chains vs. small independently owned stores) or other factors that influence the price of food.

If the maximum value is to be printed on the food instrument, the MIS must be programmed to do so. This approach clearly communicates the maximum to the vendor, but it entails the risk that vendors will set their prices at or close to the maximum. Yet another limitation of printed

maximum values is that when prices fluctuate, the maximum values on food instruments issued 2 or 3 months in advance may become out of line with the current market, leading either to more overcharging or disputes with vendors over what they perceive as inadequate reimbursements.

For such reasons, 42 percent of State agencies use hidden maximum values for food instruments, a system whereby the maximum value can be calculated at the time of redemption based on the most current data. This approach also gives State agencies more flexibility to vary the groupings of vendors used to determine the average prices. Regardless of which of option an State agency chooses, these controls require an investment of State staff time, both up front to establish maximum values, and routinely to monitor current pricing and adjust the values accordingly. The MIS must be programmed in such a way that this information can be changed regularly and with little difficulty for this control to operate efficiently.

Identification of High-Risk Vendors

Redemption-monitoring reports provide an important tool for State agencies to meet the requirement to identify high-risk vendors. Commonly used high-risk indicators include: the overall percentage of food instruments returned, the percent returned for specific reasons (such as alterations or missing signature), and the frequency with which vendors redeem food instruments at or near the maximum value (if one is specified). The number of participants using food instruments at a vendor who is outside their geographical area can be an identifier as well. The State agency can gain added flexibility for vendor monitoring by creating the capability to perform ad hoc queries on transaction and redemption data, so that information on potential new patterns of fraud can be incorporated in monitoring reports.

Monitoring of these types of data enables State agencies to identify vendors who may be engaging in suspicious practices, so these vendors can be investigated further. Such monitoring requires the use of MIS with the capability to provide monitoring reports based on these data, which will represent an added cost to State agencies whose current MIS cannot perform this function. Staff time needed to review the reports is an additional cost to the Program, the amount of which varies depending on the volume of vendor activities flagged by the reports. State agencies need to track the outcomes of investigations based on different indicators, to increase the likelihood that monitoring reports will target the stores engaging in violations.

Another form of vendor monitoring is through store visits to observe the stock, prices, and checkout procedures. In addition to the store visits made during the authorization process, some State agencies conduct periodic monitoring visits. One form of these visits is the price survey, whereby State staff members verify vendors' prices for WIC foods. Another approach more directly focused on fraud and abuse is to conduct education buys, in which a WIC representative conducts a WIC transaction to observe the store's procedures and pricing.

Unlike compliance buys (discussed below), the vendor is aware that the buyer is a WIC representative, and the purpose is to identify a need for training rather than to establish a basis for a sanction against the vendor. While monitoring visits represent a cost to the Program in the form of staff time, they also represent several benefits to the Program. Such visits afford the State agency the opportunity to identify deficiencies and to educate vendors, and as a result, the

likelihood that vendors will be penalized for unintentional errors in processing is reduced. In addition, communication and positive relations between the State agency and vendors can be strengthened.

Compliance Buys and Invoice Audits

State agencies are required to conduct compliance buys on a specified percentage of vendors, including all identified high-risk vendors up to this percentage. This practice is aimed at detecting fraudulent vendor activity that may range from inadvertent actions resulting from ignorance of Program rules to intentional collusion with the participant. Compliance buys may be conducted by State, local, or contracted staff. The undercover “participant” in a compliance buy may attempt any type of violation, from minor substitution (e.g., non-WIC cereal) to major substitution (e.g., cigarettes) or trafficking to see if the vendor is willing to perpetrate the violation. Investigators must establish a pattern of violations to provide grounds for vendor sanctions, and they usually begin with minor violations before attempting major ones.

In agencies where WIC staff members perform compliance buys themselves, vendors are often able to recognize them, thereby negating the effectiveness of the compliance buy as a tool of detection. Use of staff with specialized training or contracting of outside agencies with appropriate expertise to perform the buys is an enhanced control. Specialized staff may play the role of “participant” more effectively and generate less suspicion on the part of the vendor. In areas where a particular ethnic group is concentrated, effective buys often require the use of an operative from that ethnic group.

Use of staff with special training as opposed to use of local agency staff entails either the hiring of staff with appropriate training or the diversion of trained staff from other duties to conduct these buys. Either scenario may represent an increased cost to the Program, as may the hiring of a contractor to conduct the buys, because more expensive labor may be involved. However, specialized staff or contractors are likely to perform buys more effectively, and the risk of retaliation against them is lessened, as they are not known members of the community. State agencies must weigh the potentially higher cost against the benefits of meeting the requirement in a way that strengthens their ability to detect fraud.

Some State agencies perform invoice audits of the vendors’ records to compare the claims for reimbursement against records of purchases from wholesalers. This is an alternative tool to probe for evidence of fraud because vendors engaged in major substitution or trafficking on a large scale are not likely to have sufficient wholesale purchases of WIC foods to correspond to the amount of their redemptions. This method requires staff time to perform the audits, the amount of time depending on the volume of records to audit, but can be particularly useful when compliance buys are not feasible, as when a person must be known by or sponsored to engage in a fraudulent transaction.