

Appendix G

Use of Food Price Information to Limit Payments to Vendors

As a practice for managing authorized vendors and ensuring the integrity of the food delivery system, all six States in the study used price standards for individual WIC foods to set limits on payments for redeemed food instruments, otherwise known as maximum, or “not-to-exceed,” values. This appendix describes these practices and presents information on their costs.

In all of the six States except Texas, each food instrument had a maximum total value that depended on the items on the instrument. If a vendor submitted a food instrument that exceeded the State’s maximum value for that food instrument, the State rejected the instrument or reduced the reimbursement to the specified maximum.¹

Texas, on the other hand, set a maximum price for each item on the food instrument. The vendor recorded the actual prices on the instrument for the foods taken by the participant. If the price for an item exceeded the maximum, the State reduced the vendor’s reimbursement by the amount of the excess.

Maximum values for food instruments have two purposes. First, the process catches errors and deliberate overcharging by vendors. For example, if a clerk enters an extra zero on the price, so that the vendor deposits a WIC check for two gallons of milk for \$45.00 instead of \$4.50, this error will be detected if the State has a maximum value of \$6.00 for the check. Second, the maximum values prevent the WIC program from paying prices that are high relative to the competitive price level among WIC vendors. This practice gives the State more control of food package costs, particularly under the Texas model.

The maximum-value policy is closely related to the use of food prices in vendor selection. As noted in chapter 2, States notified vendors if the prices they submitted at the time of application exceeded the standards used by the State to set maximum values for food instruments. Vendor price surveys and redemption data were the principal sources of market data for setting maximum values. The use of maximum values, in turn, provided feedback to the vendors: if their prices were high, the State rejected or reduced their requests for reimbursement.

Unlike the WIC cost-containment restrictions described in this report, the use of maximum values is not intended to affect vendor participation or participants’ choice of WIC foods.² Rather, maximum value standards serve to ensure that authorized WIC vendors maintain competitive pricing and avoid overcharging, thus promoting vendor management goals. Therefore, the study did not look for any such effects or compare participant outcomes on the basis of differences in the implementation of this practice.

¹ State WIC agencies often contract with banks or other firms to process food instruments redeemed by vendors. For ease of exposition, the text that follows treats the contractors acting as the State’s agents as if they were part of the State WIC agency.

² Ohio’s cost-containment contracts for new vendors do not exclude any vendors, although it is possible that some potential vendors choose not to accept this contract.

Nevertheless, the study collected information on the use of maximum values in the six States because of the possibility that this practice could have an indirect impact on vendor participation. A stringent set of maximum values might have the effect of discouraging participation by small independent stores whose prices are high because of high costs for wholesale food and other expenses. This would help hold down food costs, but it could also reduce access to WIC foods for participants lacking access to large chain stores, including inner-city and rural communities. This result would be contrary to Federal rules requiring adequate geographic distribution of WIC vendors. As discussed below, the available evidence suggests that such effects are minimal or nonexistent, primarily because of the steps the States take to avoid this problem.

Procedures for Applying Maximum Values

The use of maximum values for food instruments involves the following activities:

- Collecting market prices for WIC foods
- Determining and updating maximum prices for WIC foods and food instruments
- Providing information on maximum values for foods or food instruments to vendors
- Rejecting or adjusting food instruments that exceed maximum values
- Reconsidering food instruments rejected or adjusted because of prices that exceed maximum values

The text below describes these activities and compares approaches among the six States in the study. Table G-1 summarizes this information.

Collecting Market Price Information for WIC Foods

Except for Texas, all the States collected information on market prices for WIC foods from vendor surveys (as summarized in table 2-2). Connecticut, North Carolina, Ohio, and Oklahoma collected price surveys from all authorized vendors 2 to 4 times per year. California and Oklahoma collected prices from all vendors during annual monitoring visits, but these States also collected supplementary price surveys from samples of vendors when needed to update prices for foods where the maximum values might be out of line with the market. Ohio also collected vendor prices during annual monitoring visits, and Connecticut checked vendor prices during visits every 1 to 3 years prior to vendor reauthorization.

For Texas, the vendor prices recorded on WIC vouchers were the primary data source. The other five States used redemption data as well, primarily to monitor the proportion of food instruments redeemed at or near the maximum value. This information is one indicator that a vendor may be overcharging or committing other WIC program violations. Individual stores with high rates of redemptions near the maximum value are often labeled as “high-risk” and targeted for compliance investigations or audits. On a more systemic level, if a large number of stores redeemed food instruments at or near the maximum value, the State usually reviewed the redemption and survey data to determine whether to revise the price standards used to set the maximum values.

Table G-1—Use of food price information to limit payments to vendors

Practice	CA	CT	NC	OH	OK	TX
Basis for maximum value of food instrument	Maximum value for food instrument based on price of all items	Maximum value for food instrument based on price of all items	Maximum value for food instrument based on price of all items	Maximum value for food instrument based on price of all items	Maximum value for food instrument based on price of all items	Maximum prices for individual food items
Collecting market price information for WIC foods	Vendor prices submitted at application, sample surveys of vendors, farm milk prices, redemption data	Vendor surveys and redemption data	Vendor surveys and redemption data	Vendor surveys, farm milk prices, redemption data, grocer input	Vendor surveys, redemption data	Vendor prices submitted on redeemed vouchers
Determining maximum prices for WIC foods and food instruments	Administrative decision based on price data, program cost constraints, and stakeholder concerns	Administrative decision approximately based on average vendor prices	Maximum set about 25% above average price to ensure that all stores can redeem at valid prices	Administrative decision approximately based on average vendor prices and allowance for higher priced stores	Based on average for vendor peer group with highest prices, set so that checks can be redeemed at any authorized grocer	Based on average prices, adjusted if large number of stores exceed maximum values
Informing vendors about maximum values	Printed on check except for milk/dairy checks Maximum values for milk/dairy checks sent monthly to vendors	Maximum value is hidden so vendors do not set charges at or near maximum	Printed on check	Printed on check	Printed on check	Maximum unit prices of items printed on voucher
Actions taken if price on food instrument exceeds maximum value	Check rejected	Check rejected	Check rejected	Excess amount deducted, vendor paid maximum amount	Check rejected	Excess amount deducted, vendor paid maximum amount at item level
Options for vendor if food instrument exceeds maximum value	Vendor may resubmit to have check paid, up to maximum value	Vendor may resubmit to have check paid, up to maximum value	Vendor may resubmit to have check paid, up to maximum value or more, if justified	Vendor may resubmit to have payment adjusted by amount of actual sale above maximum value, if justified	Vendor may resubmit to have check paid, up to maximum value	No appeal or adjustment
Rejected food instruments as proportion of value of food instruments (gross)	(not available)	0.18% ^a	0.15%	(not applicable)	0.09%	(not applicable)
Reductions to food instruments as proportion of value of food instruments (net)	0.03%	0.12% ^b	(not available)	0.37% ^c	(not available)	0.39% ^d

a May be understated; based on number of instruments rejected for excessive price, average dollar value of all rejected instruments.

b May be understated; based on number of instruments paid for excessive price, average overall dollar value of all rejected instruments.

c Partial data from FY2000. Preliminary data for FY2001 indicate a 0.49 percent net reduction.

d FY2000 data (most recent available).

Some of the States used other data sources for setting their maximum values. California updated maximum values for milk-only and dairy-combination food instruments on a monthly basis, using information on farm milk prices set by the California Department of Agriculture. Ohio also used farm price information from the Ohio Department of Agriculture in setting price standards for milk. In addition, Ohio obtained information from the Ohio Grocer's Association on methods for setting maximum values, taking into account wholesale prices and typical grocer markups.

Determining Maximum Prices for WIC Foods and Food Instruments

In all six States, the maximum values for food instruments depended on the price standards established for each category of WIC food. Where the maximum value was for the entire food instrument, the State computed this value based on the items on the food instrument, their quantities, and the price standards for each item.

The States based the price standards for individual foods on average prices charged by WIC vendors, but they exercised judgment in setting the standards. On the one hand, they wanted to prevent overcharging and hold down food costs. At the same time, they recognized that some vendors had legitimately high operating costs, especially in areas with relatively few stores that could meet WIC participants' needs. They were also aware that their price information could lag behind the market, and that food instruments are issued up to 2 months before they can be used. Therefore, the States made some allowances for expected price increases to avoid rejecting food instruments for a large number of vendors. All the States indicated that when they saw a high rate of food instruments rejected, particularly when larger stores were involved, they updated their price standards. The States monitored prices regularly, but adjustments to price standards were intermittent.

State officials described different approaches to finding the right balance in setting maximum standards for foods. Officials in North Carolina and Oklahoma emphasized the importance of making sure that participants could redeem food instruments at full value in all stores, including the smaller stores that served more remote areas. North Carolina set its price standards about 25 percent above statewide averages, and Oklahoma focused on the average prices for the vendor peer group with the highest prices. Oklahoma officials also noted, however, that their price standards remained set for extended periods, potentially bringing down peer group averages by pushing out the most expensive authorized vendors. Connecticut officials described a similar need to make sure that prices of smaller stores were taken into account, because participants in inner-city areas often relied on these stores.

In California, Ohio, and Texas, officials emphasized the need for cost containment and their authority to limit what the State will pay for WIC foods. California officials described their process as taking into account both vendor concerns and cost constraints. If the trend in food package costs indicated a risk of exceeding the WIC grant, the State set price standards at a lower level than it would have if there had been less concern about overspending. Ohio officials worked with the Ohio Grocer's Association to develop the process for setting maximum values, but they also stressed that they did not try to accommodate all retailers in this process. Instead, the State set the prices it was willing to pay and let the retailers choose whether to participate. Texas officials closely monitored vendor prices and the incidence of prices exceeding the maximum, but they rarely adjusted their maximum

prices (except for infant formula).³ As in Ohio, officials in Texas view the maximum prices as a statement of what they were willing to pay on behalf of the taxpayers.

Informing Vendors about Maximum Values

Four of the six States printed maximum total values on their food instruments: North Carolina, Ohio, and Oklahoma did this on all of their food instruments, and California printed maximum values on most, but not all, food instruments. Because of the State's three-month check issuance cycle and the monthly review of price standards for milk, California did not print the maximum value on the milk-only and dairy-combination food instruments. Instead, the State sent monthly updates on the maximum values for these food instruments to vendors and posted them on the Internet.

As noted, Texas printed maximum values on its food instruments for each food category. Texas vendors do not receive more than the maximum amount for a category, whereas vendors in the other States can offset high prices in one food category with low prices in another to keep within the State's maximum total.

Connecticut kept maximum values hidden so that vendors could not abuse the program by setting their charges at or close to the stated maximum. Instead, vendors learned that their prices were too high by having their checks rejected. After the State adopted the hidden maximum value and several other cost-containment initiatives in 1996, its food package costs dropped from \$36.36 per person in FY1995 to \$34.23 per person in FY1997.⁴ The other States addressed the problem of "pricing to the max" by targeting vendors that consistently charged at or near the maximum for followup, such as telephone contacts, covert compliance visits, or audits.

Actions Taken if Price on Food Instrument Exceeded Maximum Value

Of the States that used printed maximum values, all five instructed vendors not to submit food instruments totaling more than the maximum value. In Connecticut, the food instruments did not have printed maximum values, but vendors acted with the knowledge that some limit existed. The other States also prohibited vendors from requesting payment of the excess amount from the participant or denying a participant a prescribed food. The States differed, however, in the procedure that cashiers should follow if the prices for a participant's food selections exceeded the maximum value. Only Ohio prohibited the vendor from asking the participant to replace a selected item with a lower priced WIC-approved item to bring the total purchase within the maximum value. California and Texas explicitly authorized vendors to request that the participant switch to a lower priced, WIC-approved item. Vendor handbooks and rules in North Carolina and Oklahoma neither prohibited nor authorized this practice.

When a vendor submitted a food instrument that exceeded the maximum value, Ohio and Texas automatically reduced the payment to the maximum value; the other four States rejected the entire

³ Texas officials indicated that retail prices for infant formula were subject to larger fluctuations than for other WIC foods, primarily because of fluctuations in wholesale prices.

⁴ The proportion of savings specifically attributable to hiding the maximum value is unknown. The State previously had a fixed maximum value for all food instruments, regardless of the items included. Along with the hidden maximum value, the State also began to review vendors' reimbursements in relation to their reported prices and to follow up on discrepancies, as discussed in the section on vendor selection.

food instrument. Five of the States had procedures for vendors to resubmit food instruments when the State rejected the instrument or reduced payment due to excessive prices, but the rules for this process differed. Texas did not allow resubmission of food instruments when payment had been reduced due to excessive prices.

Two States, North Carolina and Ohio, paid the vendor's shelf price even if it was greater than the maximum value, but only if the vendor provided documentation of the shelf price and justified it on the basis of wholesale cost. In North Carolina, a vendor could submit a food instrument that exceeded the maximum value to the local WIC office for "revalidation" to avoid having it rejected by the State's processing agent. In areas served mainly by small stores with high prices, these revalidations were common.

The other four States would not pay more than the maximum for the food instrument. California, Connecticut, and Oklahoma adjusted payment up to the actual amount of sale or the maximum (whichever was less) to correct errors by the vendor or the State's agent.

To varying extents, food instruments rejected for excessive prices in California, Connecticut, North Carolina, and Oklahoma were not resubmitted, so the State sometimes saved the entire amount, not just the excess. Vendors resubmitted nearly all food instruments rejected for excessive prices in California, but only 35 percent were resubmitted and paid in Connecticut.⁵ North Carolina and Oklahoma could not provide data on the proportion of rejected food instruments resubmitted by vendors.

Table G-1 provides information on the approximate scale of savings due to food instruments rejected or payments reduced because of prices exceeding the maximum value. Some of the States could provide only the gross value of food instruments rejected, whereas others provided the net value of savings based on the difference between the amount claimed by the vendor and the amount paid at or below the maximum value. Both rates are quite small—less than 0.5 percent of total food costs in all six States.

Among the States providing the gross value of food instruments rejected for exceeding the maximum value, Connecticut had the highest rate (at least 0.18 percent of food costs). North Carolina's rate was somewhat smaller (0.15 percent), and Oklahoma's rate was smaller still (0.09 percent). Actual savings in all three States were smaller than indicated, to the extent that rejected food instruments were resubmitted at or below the maximum value. Connecticut's net savings are estimated at 0.12 percent of food costs, although this estimate may be low (as discussed in the notes to table G-1). The other States could not estimate the net savings after resubmission of rejected food instruments.

Ohio and Texas had similar rates of net reductions in payment due to maximum values: 0.37 percent of food costs for Ohio and 0.39 percent for Texas (based on FY2000 data).⁶ These reductions were substantially greater than the gross figures for Connecticut, North Carolina, and Texas, but still quite small as a percentage of food costs. California's net reduction of 0.03 percent is the smallest of the 4

⁵ Oklahoma and North Carolina did not provide estimates of the proportion of rejected food instruments resubmitted and paid.

⁶ Preliminary data indicate an 0.49-percent reduction in Ohio for FY2001. Data for FY2001 were not available for Texas.

States that had these figures available, as might be expected given the high proportion of rejected food instruments resubmitted by vendors.

Taken by themselves, these data suggest that Ohio and Texas had the most stringent limits on food instrument payments through their maximum values, whereas those in Oklahoma and California were the least stringent. The data are insufficient to make such a judgment, for two reasons. First, available data from Oklahoma suggest that the actual rejections represent the “tip of the iceberg” relative to the total value of food instruments for which the vendor’s shelf prices exceed the maximum value. In Oklahoma, about 0.5 percent of food instruments (by value) were redeemed at the maximum—over five times the proportion rejected for being over the maximum. At least a fraction of the food instruments redeemed at the maximum represent situations where the vendor was reimbursed less than the shelf price. Furthermore, an unknown amount of potential overcharging was deterred by the maximum value.⁷ Secondly, differences in the proportion of food instruments rejected for excessive prices may in part reflect differences in the underlying distribution and variability of retail food prices among the States. For any given standard relative to the average vendor prices, the proportion of food instruments rejected, and thus the apparent stringency of maximum values, will depend on the variation of prices across vendors and over time.

Administrative Costs of Using Price Data To Limit Payments to Vendors

As shown in table G-2, five of the six States provided data to estimate the administrative costs of using price data to limit payments to vendors. The estimated costs ranged from \$0.01 PPY in California to \$0.53 PPY in Connecticut, with a cross-State average of \$0.21 PPY. The wide variation in costs reflects differences in both the process and the available information on costs.

Texas indicated that there were no incremental costs for this practice. The State explained that the major activities that contributed to its process for limiting vendor payments—including the entry of item prices during food instrument processing, likely the largest cost component—have always been in place and would occur even in the highly unlikely event that limits on item costs were lifted. As noted in chapter 2, monitoring of vendors with excessive prices is part of the estimated cost for using price data in vendor authorization in Texas.

The costs estimated for the use of price data to limit vendor payments fall into two categories, present in varying degrees in the five States with estimated costs for this function. First, some States treated some or all of their costs for collecting, tabulating, and analyzing vendor prices as part of this function, because this was the primary use of the price data. The five States reported administrative costs as follows:

- In addition to vendor price survey costs, California’s cost for this function included time spent monitoring actual redemption costs relative to maximum prices, in order to ensure that the maximum prices were neither too high nor too low.⁸

⁷ A recent FNS study estimated that overcharges account for 0.9 to 1.6 percent of WIC redemptions. Across all types of transactions conducted for the study, vendors overcharged in 8.7 percent of transactions (FNS, 2001).

⁸ California was unable to estimate the costs for tracking dairy prices, updating maximum values for milk and dairy-combination food instruments, and disseminating this information to vendors.

Table G-2—Use of price data to limit vendor payments

State	Total labor (w/ fringe)	Total indirect	Total loaded labor	Cost per participant per year
	<i>Dollars</i>			
California ^a	41,654	7,498	49,152	0.04
Connecticut ^b	20,628	7,839	28,467	0.58
North Carolina ^a	48,709	2,108	50,817	0.25
Ohio ^c	11,227	2,600	13,827	0.06
Oklahoma ^d	13,650	1,950	15,600	0.18
Texas ^e	—	—	—	—
Average ^f				0.22

a Includes price surveys of selected vendors. See text and footnotes regarding scope of estimate.

b Includes interim price surveys and followup on rejected food instruments resubmitted for payment; some uncertainty about average time per instrument.

c Assumes all data entry of price surveys is for cost containment.

d Includes interim price surveys. Respondents viewed estimates for some components as probably high and for other components as probably low.

e No separable cost; embedded in voucher processing, monitoring of food costs for financial management.

f Includes all but Texas.

Source: Interviews with State WIC officials.

- Connecticut’s cost included interim price surveys conducted between vendor authorization cycles.
- North Carolina treated all of its price data collection, tabulation, and analysis costs as part of this function, as did Ohio.⁹
- Ohio’s process involved much less review of individual vendor surveys, so the resulting cost was substantially lower.
- Oklahoma included its quarterly vendor price survey costs in this function, but not its on-site price reviews during authorization and monitoring visits.

Second, three States had identifiable costs for processing WIC checks or vouchers resubmitted after being rejected for excessive prices. This activity represents part of the estimated cost for this function in Connecticut, North Carolina, and Ohio. California allowed vendors to resubmit rejected food instruments, but there was no special handling and therefore no identifiable cost beyond the basic check processing expenses.

The vast majority of the cost for using price data to limit vendor payments in North Carolina was for activities conducted by local agencies. The local offices collected the vendor price surveys and checked them for completeness before sending them to the State office for tabulation. Local WIC staff members processed vendors’ requests to revalidate food instruments that had been rejected because of excessive prices (and other reasons not included in the estimate). Two of the three local

⁹ North Carolina was unable to estimate the cost of entering the price survey data, a function performed by a unit outside the State WIC bureau.

agency respondents gave cost data for these activities, and their estimates were similar (\$.21 PPY and \$.27 PPY). The third local agency was unable to provide cost data for these activities, so the unweighted average of the other two agencies was used.¹⁰ The cost for revalidating WIC food instruments could vary much more than indicated by the data, according to the State, because the volume of requests varied a great deal. The State lacked precise data on this volume, so the estimates rely on the very small sample of two local agencies.

In considering the cost estimates for limiting vendor payments by using price data, it is important to recognize that price surveys also serve as input for monitoring and projecting food package costs. Thus, a portion of these costs might be attributed to financial management objectives other than cost containment. In addition, the initial process of setting maximum prices is more time consuming than the ongoing costs of maintaining this practice. After maximum prices have been established, the States do not want to change them too often, because stable limits encourage vendors to keep prices down, but the States also recognize the need to respond when market prices rise (particularly wholesale costs). The initial costs could not be estimated, because all of the States had maintained their maximum value systems for 5 or more years and because key ADP costs were embedded in those of much larger WIC management information system projects. As with the cost-containment costs presented in appendix F, the costs in Connecticut are higher than in any of the other States, and the reasons may include both real differences in cost structure and measurement error.

¹⁰ Weighting of local agency averages was not appropriate, given the sampling method used.