

## Compliance/Educational Purchase System and Inventory Audits

### I. Compliance Purchase System

- a. The Utah State Agency's compliance purchase system is a covert, onsite investigation. A Program representative who poses as a participant, parent or caretaker of an infant or child participant, or proxy, transacts one or more food instruments or cash-value benefits, but does not reveal during the visit that he or she is a program representative. A compliance purchase is defined as two to negative or three compliance purchases with redeeming WIC checks food instruments using an investigative individual posing as a WIC participant in order to verify and document WIC Program abuse or fraud. The investigative agent will attempt to obtain evidence that the vendor will allow a WIC Program violation or fraud to be committed at that location. Vendors selected for investigation will be based on high risk PRIORITIES I - V (redemption analysis findings, monitoring, complaints, etc.) or at random. State Agency violation points or sanctions may be imposed.
- b. Based on the type of violation, statistical and financial significance of the violation and criteria for investigations, the WIC State office shall decide whether any type of purchase investigation will be performed prior to authorizing such investigations, and whether an educational purchase (performed with the vendor's/store manager's prior knowledge) may precede compliance purchasing. Local WIC agencies cannot initiate covert investigations of WIC vendors (including, but not limited to the actual purchase of WIC products at the vendor location) without written approval from the State Agency.
- c. Compliance Purchase Selection
  - i. The Utah WIC Program will conduct compliance purchases on a minimum of five percent (5%) of the total WIC vendors authorized at the beginning of the Federal Fiscal Year.
  - ii. If the number of vendors identified as high risk does not meet the required five percent (5%), then vendors may be selected at random.

### II. Compliance Purchase Policies

- a. The investigative (contracted) agency will appoint an investigator who will enter the store and attempt the compliance purchase. The investigator shall review the vendor's file and become familiar with any documented problems.

- b. Training and education will be provided by the State Agency to the investigator prior to the compliance purchase. The investigator will become familiar with the area around the vendor location, if possible. This training will include:
  - i. Not invoking sympathy or trying to convince or coerce the cashier to allow any non-authorized foods to be purchased.
  - ii. The fact that they may be embarrassed and to leave the store immediately if the situation becomes embarrassing or hostile.
  - iii. Exactly what to purchase and the procedures for **food instrument redemption. cashing a WIC check.**
- c. The investigator assigned to the case must complete as much of the WIC Investigation Report form as possible prior to the visit to the vendor location.
- d. **The investigator will be issued an e-WIC ID Packet card and PIN number by the State Agency along with WIC checks. These checks will be generated by the computer for this purpose. Copies of these checks will be attached to the Investigation Form.**
- e. The investigator will drive to the vendor's place of business and note the time they enter the store.
- f. **The investigator will:**
  - i. **Record the number of check stands.**
  - ii. **Select the items they have been instructed to purchase.**
  - iii. **Use a different cashier for checkout procedures at each visit to the same location, if possible.**
  - iv. **The investigator will tell the cashier before the items are rung up that she is a WIC participant and will be using WIC checks. If the investigator is told she cannot purchase any unauthorized food items, she should return them and pick up the items listed on the WIC checks or requested by the vendor.**
  - v. **Take the receipts and the items purchased, leave the store, and complete the appropriate documentation.**
  - vi. **Photograph the store front upon the final departure at each compliance purchase location.**
  - vii. **Complete the WIC Investigation Report immediately after the purchase.**
    - 1. **The receipts and any change from the transaction will be given to the State Agency.**
    - 2. **The food items will be photographed (unless otherwise directed) and photos submitted with the compliance report.**
    - 3. **After photography and verification signatures have been obtained by either an investigator or a supervisor, the food items purchased will be submitted donated to the State**

Agency a local food pantry (or other charity as directed by the State Agency).

g. Number of Compliance Purchases

- i. At least two compliance purchases will be made at each selected vendor, unless the State Agency decides otherwise.
- ii. A positive transaction is one in which the investigator is allowed to purchase unauthorized food items, non-food items, exchange cash, commit fraud, or any violation of the Utah WIC Vendor Agreement.
- iii. A negative transaction is one in which no violations occur.
- iv. Two negative transactions will result in the case being closed. Violation points or sanctions will not be imposed.
- v. Three positive transactions will result in the case being closed. Violation points or sanctions will be imposed.
- vi. If there is one negative and one positive transaction, at least one additional compliance purchase will be made in order to result in two negative or three positive transactions.

h. Follow Up Procedures

- i. The State Agency will retrieve the transaction information copy of the checks used in the compliance transaction after redemption to be used as evidence.
- ii. The State Agency vendor file will include:
  1. Any reports or complaints that were used to select the vendor for compliance purchase.
  2. The Investigation Report.
  3. Any receipts from the compliance purchase transaction and the checks used for the transaction.
  4. Any documentation of prior warnings or vendor visits.
  5. The letter sent to the vendor notifying the vendor of the compliance purchases and whether or not any violation points or sanctions were imposed.
  6. Any correspondence from the vendor regarding the case, including documentation of phone calls.
  7. Any material related to a Fair Hearing if one is requested, including the decision of the hearing officer.
- iii. . Non-perishable items will be retained by the State Agency for thirty (30) days after notification of the vendor if violation points or sanctions are to be imposed. Perishable If no request is made for a Fair Hearing by this time, the items are to be donated to charity. If a request is made for a Fair Hearing, the items are to be retained by the State Agency to be used as evidence at the hearing. In the case of negative investigation, all items will be donated to charity as soon as possible.
- iv. If the compliance purchase is found to be a positive investigation (three positive transactions), the vendor will be notified by a

certified letter of any violation points or sanctions that will be imposed and the vendor's right to a fair hearing.

- v. If the compliance purchase is found to be a negative investigation (two negative transactions), the vendor will be notified by a certified letter that a compliance purchase investigation took place and that the vendor was found to be in compliance.
- vi. The State Agency will notify the Regional FNS office of any vendors suspended or terminated.
  - 1. If the store involved is a chain store, the District Manager will be notified.
  - 2. The suspension or termination of a vendor due to a positive compliance investigation may be publicly advertised, if the State Agency determines that this will be beneficial to public perception of the Utah WIC Program.

### III. Educational Purchase System

- a. The Utah State Agency's educational purchase system determines WIC Program violations that can be corrected by appropriate training. An educational purchase is one or more purchases with a WIC **checks-food instrument** by an investigative agent posing as a WIC participant. The investigator will attempt to obtain evidence that the vendor will allow a WIC Program violation committed at that location.
- b. Vendors are selected for educational purchase investigation based on requests by store managers or vendor directors who wish to verify compliance of WIC transaction procedures, or as recommended by the State or local WIC agency to a vendor for training purposes.
- c. Unlike the compliance purchase system, the vendor is informed that the purchase will take place in their store (and may have requested the educational purchase for training purposes).
- d. A state or local WIC agency retail coordinator will be present in the store (or in the parking lot, if the representative feels their presence will distract from the purchase) during the educational purchase. Immediately after the purchase is completed, the retail coordinator will discuss the results with the investigator.
- e. The retail coordinator will then contact the store manager or director, discuss the results, and provide training as appropriate.
  - i. This training will be documented on the WIC Vendor Training Report form.

- ii. The investigator will complete the same forms as for a compliance purchase and forward the forms to the State agency.
- f. The State agency will require training in any discrepancy areas found if training in such areas was not conducted after the educational purchase. The vendor must schedule training within thirty (30) days after being notified by the State WIC agency.

#### IV. Inventory Audits

- a. Inventory audits can be used when undetected access to the vendor location is not likely or compliance purchases are otherwise not feasible to determine alleged fraud or abuse of the WIC Program.
- b. An inventory audit compares the quantity of WIC food items at the beginning of a month with the quantity of WIC food items at the end of the month, minus sales receipts to non-WIC customers and redeemed WIC food instruments during that month. If the comparison demonstrates that a vendor's transactions exceeded the amount of WIC food items available for sale, the vendor may have overcharged the WIC program.
- c. Procedures for conducting an inventory audit
  - i. Two (2) vendor coordinators, including one will be from the State agency, must conduct the store audit. When visiting the store, the investigators will advise store management that they are conducting a monitoring visit that will include inventory counting.
  - ii. ~~Each investigator will do a count of each WIC item except peanut butter, peas and beans.~~ independently count the WIC items. Both investigators must agree on the count. Once the count is agreed, it is documented.
  - iii. ~~Ask the vendor if any WIC food instruments have not yet been deposited. Record any food instrument numbers not yet deposited by the vendor. If the food instruments are at another location, have the vendor call the State agency with the numbers. These food instruments will be excluded from the audit.~~
  - iv. Document a **Food Price Reporting List** and complete the standard **Vendor Monitoring Instrument** and required training. ~~It is recommended that one investigator complete the monitoring while the other completes the store audit.~~
  - v. Before leaving the location, review the forms with the store's manager/director and have them sign and date the forms. Make sure that the vendor's entire **WIC inventory of items being evaluated** has been seen, counted, and properly recorded. Check with the store's manager/director to ensure that the store's entire WIC inventory has been counted; vendors often keep WIC items in stockrooms or other locations within the confines of the store.

Ensure that the vendor is given proper credit for their entire inventory.

- vi. If any discrepancies were noted on the Vendor Monitoring Instrument form, go over the discrepancies with the store manager/director. Advise them that any discrepancies noted must be corrected as discussed.
- vii. Revisit the store at the end of the inventory audit period. As with the first visit, two (2) investigators conduct the monitoring form and inventory audit. Use the Vendor Monitoring Instrument and Food Price Reporting List. Count the same WIC inventory as before. The investigator completing the monitoring instrument will obtain copies of the vendor's receipts and invoices ~~and bank deposits~~ for those food items during the audit period. If those records are not available, the manager or director will be asked to send them to the State agency within ten (10) working days.
  1. Failure to provide these documents is considered a violation of the Vendor Agreement.
- viii. All food instruments redeemed ~~of the vendor's redemption~~ during the audit period will be reviewed by the State agency. The State agency will provide the following calculations:
  1. Beginning inventory + Vendor's invoices = Total available for sale.
  2. Total available for sale – Ending inventory = Total sold.
  3. Compare the total sold of each item with the total of each item obtained from redeemed food instruments and sales receipts redemption records.
  4. If the total from food instruments and sales receipt redemption records exceeds the total sold by the vendor, then multiply the exceeded amount by the lowest retail price ~~obtained during the visits~~ to determine the overcharge amount.