

Compliance/Educational Purchase System and Inventory Audits

I. Compliance Purchase System

- a. The Utah State Agency's compliance purchase system is designed for covert verification and documentation of WIC Program violations committed by authorized WIC vendors in order that appropriate State Agency violation points or sanctions may be imposed. A compliance purchase is defined as two negative or three positive purchases with WIC checks using an investigative individual posing as a WIC participant in order to verify and document WIC Program abuse or fraud. The investigative agent (posing as a WIC participant) will attempt to obtain evidence that the vendor will allow a WIC Program violation or fraud to be committed at that specific vendor location. Vendors selected for investigation will be based on high risk PRIORITIES I - V (redemption analysis findings, monitoring, complaints, etc.) or at random.
- b. The WIC State office shall decide based on the type of violation, statistical and financial significance of the violation and criteria for investigations whether any type of purchase investigation will be performed prior to authorizing such investigations, and whether an educational purchase (similar to a compliance purchase, but with the vendors/store managers prior knowledge) may precede compliance purchasing. The local WIC agencies cannot initiate any covert investigations of WIC vendors, including, but not limited to the actual purchase of WIC products at the vendor, 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 through 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 be the person that will enter the store and attempt the compliance purchase. The investigator will review the vendor's file and become familiar with any problems with the vendor.
- b. Training and education will be provided by the State Agency to the investigator prior to the compliance purchase. The investigator will

become familiarized with the area the vendor is located if possible. This training will include:

- i. Not to invoke sympathy or try in any way to convince or coerce the cashier to allow any possible non-authorized foods to be purchased.
 - ii. The fact that they may be embarrassed and if it does become embarrassing or hostile, to leave the store immediately.
 - iii. Exactly what to purchase and the procedures for cashing a WIC check.
- c. The investigator assigned to the case will complete as much of the WIC Investigation Report form as possible prior to the visit to the vendor.
- d. The investigator will be issued a WIC ID Packet 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. The investigator observes and notes the time he/she enters the store.
- f. The investigator will:
- i. Record the number of check stands.
 - ii. Select the items he/she has been instructed to purchase.
 - iii. At the second compliance visit, if possible, a different cashier from first visit should be used for checkout procedures.
 - 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. The investigator will take the receipt and the items purchased, leave the store, and complete the appropriate documentation.
 - vi. Immediately following the purchase the investigator will complete the WIC Investigation Report. The receipt and any change from the transaction will be given to the State Agency. The food items purchased will be submitted to the State Agency along with photographs of the food items (unless otherwise directed).
 - vii. At the last compliance buy, the investigator will photograph the store front upon the final departure.
- g. Number of Compliance Purchases
- i. 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. A negative transaction is one in which no violations occur.

- ii. Three positive transactions will result in the case being closed. Violation points or sanctions will be imposed.
 - iii. Two negative transactions will result in the case being closed. Violation points or sanctions will not be imposed.
 - iv. There will always be at least two compliance purchases made at a particular vendor unless the State Agency decides otherwise.
 - v. If there is one negative and one positive transaction, an additional compliance purchase will have to be made in order to determine if there have been two negative or three positive transactions.
- h. Follow Up Procedures
- i. The State Agency will retrieve a 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 transaction and the checks used for the transaction.
 - 4. Any document 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 contact.
 - 7. Any material relating to a Fair Hearing if one is requested, including the decision of the hearing officer.
 - iii. All items that are bought with the WIC checks are to be photographed. 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 items will be donated to charity by the State Agency (or as directed by the State Agency) after photography and verification signatures have been obtained by either an investigator or a supervisor. 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 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 they were found to be in compliance.

- vi. The State Agency will notify the Regional FNS office of any vendors suspended or terminated. If the store involved is a chain store, the District Manager will be notified. Finally, the suspension or termination of a vendor as a result of a compliance investigation may be publicly advertised if it is determined that this will be beneficial to the overall attitudes towards the Utah WIC Program.

III. Educational Purchase System

- a. The Utah State Agency's educational purchase system is designed for the determination of WIC Program violations committed by authorized WIC vendors in order that appropriate training can be conducted to correct the discrepancies found. An educational purchase is defined as one or more purchases with WIC checks using an individual posing as a WIC participant in order to determine any WIC Program violations. The investigative agent (posing as a WIC participant) will attempt to obtain evidence that the vendor will allow a WIC Program violation committed at that specific vendor location. Vendors are selected for educational purchases investigation based on requests by store managers or directors who wish to verify compliance of WIC transaction procedures or recommendations by the State or local WIC agency to a specific vendor for training purposes.
- b. 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.
- c. A State or local 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) while the educational purchase is being conducted. Immediately after the purchase is completed the retail coordinator will discuss the results with the investigator. The retail coordinator will contact the store manager or director, discuss the results, and provide training as appropriate. This training will be documented on the WIC Vendor Training Report form. Details of the purchase will be forwarded to the State agency with the investigator completing the same forms as with a compliance purchase.
- d. The State agency will require training in any of the discrepancy areas found if not already accomplished after the educational purchase. The vendor has thirty (30) days in which to schedule this training after being notified by the State WIC agency.

IV. Inventory Audits

- a. Inventory audits can be used when undetected access to the vendor is not likely or compliance purchases are otherwise not feasible to determine alleged fraud or abuse of the WIC Program.
- b. An inventory audit is a comparison of the quantity of WIC food items from 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 same period. 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) retail coordinators, of whom 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 counting inventory as part of the on-site visit.
 - ii. The investigators will do a count of each WIC item except peanut butter, peas and beans. The other investigator will verify the count. Both investigators must agree on the count. Once the count is agreed upon, then 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 vendor, review the forms with the manager/director, have them sign, and date the forms. Make sure that the vendor's entire WIC inventory 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 with 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 store monitoring instrument form, go over them with the store manager/director. Advise the store owner or director that any discrepancies noted must be corrected as discussed.
 - vii. Revisit the store at the end of the inventory audit period. Again, use the Vendor Monitoring Instrument and Food Price Reporting List. As with the first visit, two (2) investigators conduct the

monitoring form and inventory audit. Count the same WIC inventory as before. The investigator completing the monitoring instrument will obtain copies of the vendor's receipts, invoices, and bank deposits for those food items over the period of time designated for the audit. If the records are not available, the manager or director will be asked to send them to the State agency within ten (10) working days. Failure to provide these documents will be considered a violation of the Vendor Agreement.

- viii. All food instruments redeemed during that period of time 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. Total available for sale – Ending inventory = Total sold.
 2. Compare total sold of each item to those totals obtained from redeemed food instruments and sales receipts. If the total 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.