
UNITED STATES DEPARTMENT OF AGRICULTURE**CFDA 10.557 SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN,
INFANTS, AND CHILDREN (WIC)****I. PROGRAM OBJECTIVES**

The objective of the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) is to provide supplemental nutritious foods, nutrition education, and referrals to health care for low-income persons during critical periods of growth and development. Such persons include pregnant women, breast-feeding women up to one year postpartum, non-breast-feeding women up to six months postpartum, infants (persons under one year of age), and children under age five determined to be at nutritional risk. Intervention during the prenatal period improves fetal development and reduces the incidence of low birth weight, short gestation, and anemia.

II. PROGRAM PROCEDURES**Administration**

The U.S. Department of Agriculture (USDA) Food and Nutrition Service (FNS) administers the WIC Program through grants awarded to State health departments or comparable State agencies, Indian tribal governments, bands or intertribal councils, or groups recognized by the Bureau of Indian Affairs, U.S. Department of the Interior, or the Indian Health Service (IHS) of the U.S. Department of Health and Human Services (HHS). A State agency administering the WIC Program must sign a Federal/State Agreement that commits it to observe applicable laws and regulations in carrying out the program. The State agencies, in turn, award subgrants to local agencies to certify applicants' eligibility for WIC Program benefits and deliver such benefits to eligible persons.

Program Funding

The WIC Program is a grant program that is 100 percent federally funded. No State matching requirement exists. Funds are awarded by FNS on the basis of funding formulas prescribed in the WIC Program regulations.

FNS allocates federally appropriated funds to WIC State agencies as grants which are divided into two parts: a component for food costs and a component for Nutrition Services and Administration (NSA) costs. Resources made available to a State agency under these two components of its initial Federal WIC formula grant may be modified by the cumulative effect of the following requirements:

Reallocations and Recoveries

The WIC Program's authorizing statute and regulations require FNS to recover unspent funds and reallocate them to State agencies.

Conversion Authority

A State agency that submits a plan to increase WIC participation under a cost containment strategy, as outlined under the “Cost Containment Requirements” section below, in excess of the increases projected by FNS in the NSA funds allocation formula, may shift a portion of its food grant component to its NSA component. This “conversion authority” is a function of the “excess” participation increase and is determined by FNS (See III.A.2, “Activities Allowed or Unallowed - Exceptions”).

Spending Options

Federal legislation and regulations authorize a State agency to shift a portion of its Federal WIC formula grant between grant periods (Federal fiscal years) (See III.H, “Period of Availability of Federal Funds”).

Rebates

A State agency may contract with a food manufacturer to receive a rebate on each unit of the manufacturer’s product purchased with Food Instruments (FIs) redeemed by program participants. Such rebates are credits against prior expenditures made during the month in which the rebate was earned for WIC food costs (See III.B, “Allowable Costs/Cost Principles”).

Vendor, Participant, and Local Agency Collections

A State agency is authorized to retain Federal program funds recovered through claims action against vendors, participants, and local agencies, and to use such recoveries for program purposes. (See III.B, “Allowable Costs/Cost Principles”).

Program Income

Certain miscellaneous receipts a State agency collects as the result of WIC program operations are classified as program income (See III.J, “Program Income”).

State Funding

Although the Federal Financial Participation (FFP) for WIC is 100 percent, some States voluntarily appropriate funds from their own revenues to extend WIC services beyond the level that could be supported by Federal funding alone.

Certification

Applicants for WIC Program benefits are screened at WIC clinic sites to determine whether they meet the eligibility criteria in the following categories: categorical, residency, income, and nutritional risk (See III.E.1, “Eligibility - Eligibility for Individuals”).

Benefits

The WIC Program provides participants with specific nutritious supplemental foods, nutrition education, and health services referrals at no cost. The authorized supplemental foods are prescribed from standard food packages according to the category and nutritional need of the participant. The seven food packages available are described in detail in WIC Program regulations.

About 75 percent of the WIC Program's annual appropriation is used to provide WIC participants with monthly food package benefits. The remainder is used to provide additional services to participants and to manage the program. Additional services provided to WIC participants include nutrition education, breast-feeding promotion and support activities, and client services, such as diet and health assessments, referral services for other health care and social services, and coordination activities.

Food Benefit Delivery

Supplemental foods are provided to participants in any one of three ways, which are defined in program regulations at 7 CFR section 246.12(b) as follows:

Direct Distribution Food Delivery Systems (used in Mississippi, the San Felipe Indian Tribal Organization in New Mexico, and in parts of Illinois, Idaho, West Virginia, and the Acoma-Canoncito-Laguna Hospital Board of New Mexico)

The State agency and/or its agent purchases supplemental foods in bulk and issues them to participants at designated distribution facilities.

Home Food Delivery Systems (used in Vermont and in parts of Alaska, North Dakota, Texas, and Utah)

Arrangements with home food delivery contractors provide for the delivery of supplemental foods directly to participants' homes.

Retail Food Delivery System (used by most State agencies)

Negotiable FIs are issued directly to individual participants, who exchange them for authorized supplemental foods at retail stores approved as vendors by the State agency. Two types of systems are used to redeem the FIs: voucher systems and check systems. In a voucher system, the vendor submits the FIs directly to the State agency for payment; in a check system, vendors deposit FIs to their bank accounts and the State reimburses them through their banks. Generally, a participant must use an FI within 30 days of the first date of use printed on the FI; and the vendor must submit the FI for payment within 60 days of that date. Prior to March 27, 2007, the vendor's FI submission deadline was 90 days.

Each FI issued to a participant must have a unique serial number. As of March 27, 2007, a State agency is required to determine the ultimate disposition of all FIs by serial number within 120 days of the first valid date for participant use; prior to March 27, 2007, the deadline for a State

agency to do this had been set at 150 days. The State agency must adjust previously reported obligations for WIC food costs in order to account for actual FI redemptions and other changes in the status of FIs.

Cost Containment Requirements

In an effort to use their food funding more efficiently, all WIC State agencies in the 50 States, the District of Columbia, Puerto Rico, Guam, the Virgin Islands, American Samoa, the Commonwealth of the Northern Marianas Islands, and most Indian Tribal State agencies have implemented cost containment measures. Reducing the average food cost per person enables WIC to reach more participants with a given amount of funds. The most successful strategy has been the negotiation of competitive rebate contracts between State agencies and infant formula companies. Such contracts provide for the State agency to receive rebates on infant formula used in the program. Other cost containment measures used by State agencies include competitive bidding for juice, infant cereal, and infant juice; selection of retail vendors based on competitive prices; setting maximum redemption amounts for FIs; authorizing the use of store or generic brands of supplemental foods; and using a home delivery or direct distribution food delivery system.

Vendor Cost Containment

Regulations in 7 CFR part 246, published November 29, 2005, expanded requirements for selecting and paying vendors on the basis of competitive prices. Unless FNS has granted a State agency an exemption, the State agency is now required to:

1. Implement or modify a vendor peer group system, whereby authorized vendors are classified into groups on the basis of common characteristics or criteria that affect food prices. At least one such criterion must be a measure of geography, such as metropolitan or other statistical areas that form distinct labor and products markets.
2. Select and authorize vendors by applying competitive price criteria.
3. Set limits on payments to vendors within each peer group.
4. Identify vendors (called "above-50-percent vendors") that derive more than 50 percent of their annual food sales revenue from WIC FIs.
5. Comply with requirements designed to ensure that the use of above-50-percent vendors is cost neutral to the program (that is, that it does not result in higher WIC food costs than would have been the case if WIC participants had transacted their WIC FIs only at regular vendors). (See III.N.4, "Special Tests and Provisions - Authorization of Above-50-Percent Vendors.")

Federal Oversight and Compliance Mechanisms

FNS oversees State operations through an organization consisting of headquarters and seven regional offices. Federal program oversight encompasses review of the nine functional areas of

the program: Organization and Management; Funding and Participation; Vendor Management; Information Systems; Certification, Eligibility, and Coordination; Nutrition Services; Civil Rights; Monitoring and Audits; and Food Delivery. Each year FNS regional offices evaluate as many of these areas as possible within available resource constraints, focusing on those areas they consider most need of review.

Although FNS uses technical assistance extensively to promote improvements in State operation of the WIC Program, enforcement mechanisms are also present. The misuse of funds through State or local agency negligence or fraud may result in the assessment of a claim (7 CFR section 246.23(a)). Claims may be established for funds lost due to FI theft or embezzlements or for unreconciled FIs (7 CFR sections 246.23(a)(2) and (4)). FNS has other mechanisms to recover other losses and the cost of negligence. For other forms of noncompliance, FNS has the authority to give notice and, if improvements do not occur, withhold administrative funds for failure to implement program requirements (7 CFR section 246.19(a)(2)).

FNS has identified the following circumstances that may indicate noncompliance with WIC program requirements: (1) redeemed FIs which the issuing local agencies had reported as voided or unclaimed; (2) a large number of consecutively numbered, unreconciled FIs issued by the same local agency; (3) redeemed FIs that appear to have been validly issued but fail to match issuance records; and, (4) participants that transacted all of their FIs on the same day as they were issued.

Source of Governing Requirements

The WIC Program is authorized by section 17 of the Child Nutrition Act of 1966 (42 USC 1786). Program regulations are found at 7 CFR part 246.

Availability of Other Program Information

For additional information, contact the applicable FNS regional office. Regional office telephone and datafax numbers, and the States each regional office serves may be found on FNS's web site (<http://www.fns.usda.gov/wic>). The WIC Program regulations can be found at that web site as well.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

A. Activities Allowed or Unallowed

1. General Rule

- a. Funds allocated to a State agency for food must be expended to purchase supplemental foods for participants or to redeem FIs issued for that

purpose. When supplemental foods are provided to participants via direct distribution, the related warehouse facilities costs shall be allowable food costs. Food funds can also be used to purchase breast pumps for participants (7 CFR section 246.14(a) and (b)). Effective March 27, 2007, Federal program funds may not be used to pay for retroactive benefits to participants (7 CFR section 246.14(a)(2)).

- b. Funds allocated for NSA must be used for the costs incurred by the State or local agency to provide participants with nutrition education, breast-feeding promotion and support, and referrals to other social and medical service providers; and to conduct participant certification, caseload management, food benefit delivery, vendor management, voter registration, and program management (42 USC 1786(h)(1)(C)(ii); 7 CFR sections 246.14(c) and (d)).

2. *Exceptions*

- a. Funds allocated for food costs may be converted (be applied to NSA costs): (1) as a result of a State's plan to exceed participation levels projected by the Federal funding formula; or (2) after recovery as vendor or participant collections. Conversion due to planned participation increases is allowed only if such increases are expected to result from an approved cost containment plan (7 CFR sections 246.14(e) and 246.16(f)).
- b. Funds allocated for NSA costs but not needed for such costs may be applied to food costs (7 CFR section 246.14(a)(2)).

3. *Distinguishing WIC from Non-WIC Services*

Under no circumstances may the WIC NSA grant component be charged for costs that are demonstrably outside the scope of the WIC Program. WIC services may include: (a) some screening (excluding laboratory tests other than the blood work [hematological test] described below, which is required for determining WIC eligibility); (b) referrals for other medical/social services, such as immunizations, prenatal (before birth) care, perinatal care (near the time of birth from the 28th week of pregnancy through 28 days following birth), and well child care and/or family planning; and (c) follow-up on participants referred for such services. However, the cost of the services performed by other health care or social service providers to which the participant has been referred shall not be charged to the WIC grant. For example, the cost to screen, refer, and follow-up on immunizations for WIC participants may be charged to the WIC grant, but, the cost to administer the shot, or to purchase the vaccine or vaccine-related equipment, may not be charged to the WIC grant.

A hematological test for anemia, such as a hemoglobin, hematocrit, or free erythrocyte protoporphyrin test, is the only laboratory test required to determine a person's eligibility for WIC (7 CFR section 246.7(e)(1)). Accordingly, the cost of hematological tests for anemia is the only laboratory cost that may be charged to a WIC grant.

B. Allowable Costs/Cost Principles

1. *Applicable Credits*

The following items are credits against current vendor billings or prior expenditures:

- a. *Rebates* - Rebates are credits against prior expenditures for food costs, made during the month in which the rebate was earned.
- b. *Vendor Collections* - Post-payment vendor collections are funds collected through claims assessed against food vendors for errors and overcharges. Pre-payment vendor collections are improper payments prevented as a result of reviews of FIs prior to payment; they are credits against vendor billings.
- c. *Participant Collections* - These are recoveries of improperly issued food benefits as the result of a participant, guardian or caretaker intentionally making a false or misleading statement or withholding information.
- d. *Local Agency Collections* - These are funds collected as a result of claims assessed against local agencies for program funds that were misused or otherwise diverted from program purposes due to local agency negligence or fraud.

A State agency must recognize, use, and account for these items in accordance with program regulations. At its discretion, the State agency may credit vendor, participant, and local agency collections against expenditures for food and/or NSA costs. The State agency may apply vendor, participant, and local agency collections to food and/or NSA expenditures of: (1) the fiscal year in which the initial obligation was made; (2) the fiscal year in which the claim arose; (3) the fiscal year in which the collection is received; or (4) the fiscal year following the fiscal year in which the collection is received (42 USC 1786(f)(21); 7 CFR section 246.14(e)).

2. *Capital Expenditures*

- a. FNS has authorized WIC State and local agencies to charge the full acquisition cost of non-computer equipment costing less than \$25,000 per unit without obtaining prior FNS approval, and to allow local agencies under their oversight to do likewise. FNS regional offices retain the

discretion to apply a lower dollar threshold to an individual State agency and to the local agencies under its oversight, provided certain requirements apply and the State agency receives written notice.

b. *Automated Data Processing (ADP) Projects*

FNS requires WIC State agencies to obtain prior approval to incur costs for certain ADP projects and to provide notification and/or documentation for others (7 CFR section 246.14(d)). Approval procedures are in FNS Handbook 901, *Advance Planning Document Handbook*, 2007 edition, section 4.0.1 (available at http://www.fns.usda.gov/apd/Handbook_901_2007/Final_FNS_Handbook_901.pdf).

Approval levels are as follows:

- (1) A State agency must notify the applicable FNS regional office within 60 days of the initial expenditure or contract award for an ADP project costing in excess of \$4,999 but less than \$100,000; and
- (2) A State agency must receive prior approval for (a) an ADP project that has a cost greater than \$99,999 or (b) any ADP project associated with planning, developing, or deploying a new automation system.

c. *Other Capital Assets* - Purchases of other capital assets, such as buildings, land and improvements to buildings or land that materially increase their value or useful life, costing more than \$5000 continue to require prior approval from FNS (7 CFR section 3016.22).

C. Cash Management

The WIC program is subject to the provisions of the Cash Management Improvement Act (CMIA). However, rebates held in State accounts are exempt from the interest provisions of the CMIA (42 USC 1786(h)(8)(J); 7 CFR section 246.15(a)).

E. Eligibility

1. Eligibility for Individuals

Applicants for WIC Program benefits are screened at WIC clinic sites to determine their WIC eligibility. To be certified eligible, they must meet the following eligibility criteria (7 CFR sections 246.7(c), (d), (e), (g), and (l)):

- a. *Categorical* - Eligibility is restricted to pregnant, postpartum, and breast-feeding women, infants, and children up to their fifth birthday (7 CFR sections 246.2 (definition of each category) and 246.7(c)).

- b. *Identity and Residency* - Except in limited circumstances, WIC applicants must be physically present for eligibility screenings and must provide proof of identity. An applicant must also meet the State agency's residency requirement. Except in the case of Indian State agencies, the applicant must reside in the jurisdiction of the State. Indian State agencies may require applicants to reside within their jurisdiction. All State agencies may designate service areas for any local agency, and may require that applicants reside within the service area. A State agency must establish procedures, in accordance with guidance from FNS, to prevent the same individual from receiving duplicate benefits through participation at more than one local agency. Except under limited circumstances, WIC applicants must present proof of identity and residency at certification. Documentation of these determinations may consist of descriptions of documents evidencing the applicants' identities and residency, copies of the documents themselves, and/or the applicants' written statements when no other documentation exists. Certification procedures prescribed by the State agency set conditions for relying on these different forms of documentation (42 USC 1786(f)(23); 7 CFR sections 246.7(c)(1), 246.7(i)(3) and (4), and 246.7(l)(2)).
- c. *Income* - An applicant must meet an income standard established by the State agency or be determined to be automatically (adjunctively) income-eligible based on documentation of his/her eligibility, or certain family members' eligibility, for the following Federal programs: (1) Temporary Assistance for Needy Families; (2) Medicaid; or (3) Supplemental Nutrition Assistance Program (formerly the Food Stamp Program). State agencies may also determine an individual automatically income-eligible, based on documentation of his/her eligibility for certain State-administered programs. With limited exceptions, applicants who are not adjunctively or automatically income eligible for WIC must provide documentation of family income at their initial or subsequent certification (42 USC 1786(d)(3)(D); 7 CFR sections 246.2 (definition of "family"), 246.7(c), and 246.7(d)).

Income Guidelines - The income standard established by the State agency may be up to 185 percent of the poverty income guidelines issued annually by HHS or State or local income guidelines used for free and reduced-price health care. However, in using health care guidelines, the income guidelines for WIC must be between 100 and 185 percent of the poverty income guidelines. Local agency income guidelines may vary as long as they are based on the guidelines used for free and reduced-price health care (7 CFR section 246.7(d)(1)). Effective March 27, 2007, income determinations based on State or local health care guidelines are subject to the definition of "family" in 7 CFR section 246.2, the definition of "income" in 7 CFR section 246.7(d)(2)(ii), and the exclusions from income in 7 CFR section 246.7(d)(2)(iv) (7 CFR sections 246.2 and

246.7(d)(2)). The WIC income eligibility guidelines are issued each year in the *Federal Register* and are available on FNS's WIC web site (<http://www.fns.usda.gov/wic>).

Income Eligibility Determination - Except for applicants determined to be automatically income-eligible, income is based on gross income and other cash readily available to the family or economic unit. Certain Federal payments and benefits, listed at 7 CFR section 246.7(d)(2)(iv)), are excluded from the computation of income. Family Subsistence Supplemental Allowance payments to members of the Armed Forces and their families are also excluded (7 CFR section 246.7(d)(2)(iv)(D)(33)). In addition, the State agency may exclude:

- (1) Housing allowances received by military services personnel residing off military installations or in privatized housing, whether on or off-base (7 CFR section 246.7(d)(2)(iv)(A)(1)); and
- (2) Any cost-of-living allowance provided to military personnel who are on duty outside the contiguous States of the United States (7 CFR section 246.7(d)(2)(iv)(A)(2)).

At a minimum, in-stream (away from home base) migrant farm workers and their families with expired Verification of Certification cards shall meet the State agency's income standard provided that the income of the family is determined at least once every 12 months (7 CFR section 246.7(d)(2)(ix)).

An Indian State agency, or a State agency acting on behalf of an Indian local agency, may submit reliable data that proves to FNS that the majority of Indian households in a local agency service area have incomes at or below the State agency's income guidelines. In such cases, FNS may authorize the State agency to permit the use of an abbreviated income screening process whereby an applicant affirms, in writing, that his/her family income is within the State agency's prescribed guidelines (7 CFR section 246.7(d)(2)(viii)).

State agencies may instruct local agencies to consider family income over the preceding 12 months or the family's current rate of income, whichever indicator more accurately reflects the family's income status. However, applicants in which an adult member is unemployed shall have income determined based on the period of unemployment. A State or local agency may require verification of information which it determines necessary to confirm income eligibility (7CFR sections 246.7(d)(2)(i) and (v)).

- d. *Nutritional Risk* - A competent professional authority (e.g., physician, nutritionist, registered nurse, or other health professional) must determine that the applicant is at nutritional risk. While the broad guidelines for

determining nutritional risk are set forth in WIC legislation and regulations, the specific allowable nutritional risk criteria are defined in WIC policy guidance, which is updated periodically. Each State agency may choose which allowable nutritional risk criteria will be used to determine eligibility. At a minimum, the certifying agency must perform and/or document measurements of each applicant's height or length and weight. In addition, a hematological test for anemia must be performed or documented at certification if the applicant has no nutritional risk factor prescribed by the State agency other than anemia. Certified applicants with qualifying nutritional risk factors other than anemia must also be tested for anemia within 90 days of the date of certification. Program regulations set several exceptions to these general rules. The determination of nutritional risk may be based on current referral data provided by a competent professional authority who is not on the WIC staff (7 CFR sections 246.2 (definitions of "competent professional authority" and "nutritional risk") and 246.7(e)).

When an applicant meets all eligibility criteria, he/she is determined by WIC clinic staff to be eligible for program benefits. Certification periods are assigned to each participant based on categorical status for women, infants, and children (7 CFR section 246.7(g)).

A WIC local agency assigns each eligible person a priority classification according to the classification system described in 7 CFR section 246.7(e)(4). A person's priority assignment reflects the severity of his/her nutritional risk. If the local agency cannot immediately place the person on the program for lack of an available caseload slot, the person is placed on a waiting list. Caseload vacancies are filled from the waiting list in priority classification order. State agencies are expected to target program outreach and caseload management efforts toward persons at greatest nutritional risk (i.e., those in the highest priority classifications).

Pregnant women are certified for the duration of their pregnancy and for up to six weeks postpartum. Breast-feeding women may be certified approximately every 6 months, or up to one year postpartum or until the woman ceases breastfeeding, whichever occurs first (42 USC 1786(d)(3)). Infants are certified at intervals of approximately six months, except that infants under six months of age may be certified for a period extending up to the child's first birthday, provided the quality and accessibility of health care services are not diminished. Children are certified for 6-month intervals ending with the end of the month in which the child reaches the fifth birthday. Non-breast-feeding women are certified for up to 6 months postpartum. Effective November 27, 2006, all categories of participants may be certified up to the last day of the last month of the certification period (7 CFR section 246.7(g)(1)).

2. **Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**
3. **Eligibility for Subrecipients**

A State agency may award WIC subgrants only to organizations meeting the regulatory definition of "local agency." Such organizations include public or private non-profit health agencies, human service agencies that provide health services, IHS health units, and Indian tribal groups described in the WIC program regulations (See definition of "local agency" in 7 CFR section 246.2.).

H. Period of Availability of Federal Funds

1. *Spend-Forward Option* - A State agency may spend NSA funds up to an amount equal to three percent of its total WIC formula grant for NSA costs of the following Federal fiscal year. With prior approval from its FNS regional office, the State agency may also spend NSA funds in an amount that does not exceed one-half of one percent of its total WIC formula grant, for management information systems development costs during the following Federal fiscal year. Food funds may not be "spent forward" (42 USC 1786(i)(3)(A)(ii)(I); 7 CFR section 246.16(b)(3)(ii)).
2. *Backspend Option* - A State agency may:
 - a. Spend up to one percent of the food component of its grant for food costs of the Federal fiscal year preceding the fiscal year for which the grant was awarded. This backspend authority may be raised as high as three percent with prior approval from FNS.
 - b. Spend up to one percent of its NSA grant component for food and/or NSA costs of the Federal fiscal year preceding the fiscal year for which the grant was awarded (7 CFR section 246.16(b)(3)(i)).

J. Program Income

The State agency may use current year program income for costs incurred in the current fiscal year and, with the approval of FNS, for costs incurred in previous or subsequent fiscal years. Currently, the following are the only funds FNS is aware of that WIC State agencies receive that are classified as program income: (1) royalties from printed publications; (2) nominal fees, not to exceed costs, for reproducing or mailing publications, videotapes, posters, etc.; (3) interest earned on rebate funds for infant formula and other foods; (4) general grants not tied directly to foods purchased, but made for inclusion of food items in a State's food package (such as certain grants from the private sector); and (5) money received by the State agency as a result of civil money penalties or fines assessed against a vendor, and any interest charged in the collection of these penalties and fines. A State agency may use program income for any combination

of food and NSA costs or other costs that further the broad objectives of the program (7 CFR section 246.15(b)).

L. Reporting

1. Financial Reporting

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. FNS-798, *WIC Financial Management and Participation Report (OMB No. 0584-0045)* - A State agency is required to submit monthly financial and program performance (participation) data (7 CFR section 246.25(b)).

Each WIC State agency uses the FNS-798 to report projected and actual Federal food expenditures and participation for each month of the fiscal year. Participation for any given month equals the number of individuals who received supplemental foods or FIs during that month plus the number of infants who received no supplemental foods or FIs, but were breast-fed by participating women during that month.

WIC State agencies also use the FNS-798 to provide the data FNS needs to conduct the annual grant reconciliation and closeout required by 7 CFR part 3016. The FNS-798 presents the status of the report year grant and costs adjusted by the spending options (described under III.H, "Period of Availability of Federal Funds"), which allow State agencies to shift a small portion of the WIC grant funds between Federal fiscal years. The FNS-798 closeout report is the State's official declaration of the final status of its grant and costs for the report year.

Key Line Items - The following line items contain critical information:

- (1) Line 1 *Adjusted Gross Obligations* - reflects the amount of money, net of all credits used to fund food outlays except rebates, that a State agency estimates it will spend for each month's food orders or FI issuances.
- (2) Line 2 *Estimated Rebates* - reflects the amount of money that a State agency estimates it will receive for rebates.

- (3) Line 7 *Rebates Billed* - reflects the dollar value of bills or invoices submitted by the State to food manufacturers, such as infant formula companies, for rebate payments.
 - (4) Line 12 *Net Federal Outlays and Unliquidated Obligations* - reflects the amount of payments, net of rebates billed, program income, post-payment vendor collections, participant collections, local agency collections, and other credits. The State's WIC program food cost ledger account should support this amount.
 - (5) Line 18 *Total Participation* - reflects the actual number of federally supported participants for elapsed months. The participation counts should be supported by FI issuance records and participant files.
 - (6) Line 26 *Net Federal Outlays and Unliquidated Obligations for NSA Costs* - reflects gross outlays and unliquidated obligations minus program income, post-payment vendor collections, participant collections, local agency collections, and other credits.
- f. FNS-798A, *Addendum to WIC Financial Management and Participation Report - NSA Expenditures (OMB No. 0584-0045)* - State agencies prepare the FNS-798A annually to report: (1) NSA expenditures by function for the fiscal year being closed out; (2) the method by which NSA expenditures were charged as indirect costs; and (3) the method by which the indirect cost amount was determined. FNS uses the amounts reported in nutrition education and breast-feeding promotion and support, two of the four functional categories on the FNS-798A, to determine whether the State agencies met the statutory minimum spending level for those functions.

Key Line Items:

- (1) The following line items and columns contain critical information for *State-level* activities:
 - (a) Line 5a *Federal Outlays* - Column (03) - *State-Level Nutrition Education* - represents total outlays and unliquidated obligations made for State-level nutrition education costs supported by Federal grant funds and program income.
 - (b) Line 5a *Federal Outlays* - Column (04) - *State-Level Breast-feeding Promotion and Support* - represents total outlays and unliquidated obligations made for State-level breast-feeding promotion and support costs supported by Federal grant funds and program income.

- (c) Line 5b *State Outlays* - Column (03) - *State-Level Nutrition Education* - represents total outlays and unliquidated obligations made for State-level nutrition education costs supported by State-appropriated funds plus the dollar value of any in-kind contributions received from any Federal, State or local funding source.
 - (d) Line 5b *State Outlays* - Column (04) - *State-Level Breast-feeding Promotion and Support* - represents total outlays and unliquidated obligations made for State-level breast-feeding promotion and support costs supported by State-appropriated funds plus the dollar value of any in-kind contributions received from any Federal, State or local funding source.
- (2) The following line items and columns contain critical information for *local-level* activities (Outlays and unliquidated obligations made by local agencies or made by the State agency for local clinics or other units in local communities that directly provide benefits to participants).
- (a) Line 5a *Federal Outlays* - Column (07) - *Local-Level Nutrition Education* - represents total outlays and unliquidated obligations made for local-level nutrition education costs supported by Federal grant funds and program income.
 - (b) Line 5a *Federal Outlays* - Column (08) - *Local-Level Breast-feeding Promotion and Support* - represents total outlays and unliquidated obligations made for local-level breast-feeding promotion and support costs supported by Federal grant funds and program income.
 - (c) Line 5b *State Outlays* - Column (07) - *Local-Level Nutrition Education* - represents total outlays and unliquidated obligations made for local-level nutrition education costs supported by State-appropriated funds plus the dollar value of any in-kind contributions received from any Federal, State or local funding source.
 - (d) Line 5b *State Outlays* - Column (08) - *Local-Level Breast-feeding Promotion and Support* - represents total outlays and unliquidated obligations made for local-level breast-feeding promotion and support costs supported by State-appropriated funds plus the dollar value of any in-kind contributions received from any Federal, State or local funding source.

(Refer to 7 CFR section 246.14(c))

- g. *Subrecipient Reporting* - A State agency may require local agencies under its oversight to report financial information the State agency needs to prepare reports identified above. These reports should be tested during audits of subrecipients.

2. Performance Reporting - Not Applicable

3. Special Reporting - Not Applicable

M. Subrecipient Monitoring

State agencies must establish an ongoing management evaluation system which includes at least the monitoring of local agency operations, the review of local agency financial and participation reports, the development of corrective action plans, the monitoring of the implementation of corrective action plans, and on-site reviews. The on-site reviews of local agencies shall include evaluation of management, certification, nutrition education, civil rights compliance, accountability, financial management systems, and food delivery systems. These reviews must be conducted on each local agency at least once every two years, including on-site reviews of a minimum of 20 percent of the clinics in each local agency or one clinic, whichever is greater (7 CFR section 246.19(b)).

N. Special Tests and Provisions

1. Food Instrument Disposition

Compliance Requirement – Prior to March 27, 2007, a State agency was required to account for the disposition of all FIs within 150 days of the FI's first valid date for participant use. That time frame was reduced to 120 days for all FIs issued on or after March 27, 2007. The State agency must identify all FIs as either issued or voided; and identify issued FIs as either redeemed or unredeemed. Redeemed FIs must be identified as one of the following: (1) validly issued, (2) lost or stolen, (3) expired, (4) duplicate, or (5) not matching valid enrollment and issuance records. State agencies generally do this by analyzing computer reports that provide detailed issuance and redemption information on each FI (7 CFR section 246.12(q)).

Audit Objective - Determine whether the State agency's FI disposition process complies with the foregoing requirement.

Suggested Audit Procedures

- a. Obtain an understanding of the State agency's process for tracking FIs. At a minimum, this includes ascertaining how the State agency:
 - (1) Identifies the ultimate disposition of every FI; and

- (2) Follows up on redeemed FIs that cannot be matched with valid issuances (State agencies do this by contacting the issuing local agencies and by other means).
- b. Ascertain whether the State agency provides written guidance to local agencies on how to follow up on issued FIs (redeemed and unredeemed).
- c. Inspect disposition reports to ascertain that the State agency:
 - (1) Reconciled its records to issued FIs on a one-to-one basis within the time frame set by regulation (150 or 120 days, as applicable, from the FI's first valid date for participant use);
 - (2) Followed-up on redeemed FIs that were not validly issued and validly used, in order to determine their ultimate disposition;
 - (3) Obtained explanations for identified discrepancies; and
 - (4) Adjusted its accounting records and external reports in order to reflect the results of the disposition process.
- d. Using State agency disposition reports for one or more months of the audit period, verify the State agency's non-reconciliation rate for redeemed FIs. The State agency should use the following steps in performing the non-reconciliation rate calculation:
 - (1) Determine total FIs redeemed
 - (2) Determine total redeemed FIs initially identified as unreconciled (listed as redeemed with no record of issuance on exception report)
 - (3) Determine total redeemed FIs finally identified as unreconciled (after follow-up with local agencies/clinics)
 - (4) Calculate the unreconciled rate (#3 divided by #1)
 - (5) Calculate total value of FIs redeemed
 - (6) Calculate total value of FIs finally identified as unreconciled

2. Review of Food Instruments to Enforce Price Limitations and Detect Errors

Compliance Requirement – A State agency operating a retail food delivery system must take the following actions to ensure that payments of WIC food funds to vendors conform to program regulations and the State agency's vendor agreement:

- a. *FI Review Process* - The State agency must have in place a process for reviewing all, or a representative sample of, FIs submitted by vendors for redemption. The

review is done on an aggregate basis rather than on a vendor basis. Because of the wide disparity in the number of FIs processed by State agencies, there are no criteria for determining what constitutes a representative sample, other than that it must be a representative sample of FIs submitted. At a minimum, this process must be able to detect:

- (1) Redeemed monetary amounts that exceed the maximum monetary purchase amounts established by the State agency for each type of FI.
 - (2) Other errors, including purchase price missing; participant, parent/caretaker, or proxy signature missing; vendor identification missing; FIs transacted or redeemed after the specified time period; and altered purchase price.
 - (3) Questionable FIs which, while they may not clearly contain errors, nevertheless require follow-up to determine if an error has occurred.
- b. *Follow-up on Erroneous or Questionable FIs* - The State agency must follow up on FIs containing errors and other questionable FIs detected through this process within 120 days following detection. Regulations at 7 CFR sections 246.12(k)(2) through (k)(5) describe appropriate follow-up actions (7 CFR section 246.12(k)).

Audit Objective – Determine whether the State agency’s system for reviewing FIs detects and follows up on erroneous or questionable FIs.

Suggested Audit Procedures

- a. Obtain an understanding of the State agency’s process for detecting erroneous or questionable FIs.
- b. Review the State agency’s reports or other documentation of the review process, showing the results for individual FIs during the audit period. Select a sample of FIs redeemed that are covered by this documentation and analyze it to identify any FIs containing errors. If the State agency does not review all FIs, then draw the sample from only those FIs the State agency did review. Compare the FIs containing errors per the State agency’s documentation against the results of analyzing the sample in order to determine whether the State agency’s review process detected all erroneous or questionable FIs.
- c. Determine that the State agency followed up on all FIs for which its review process detected errors or questionable items within the required 120-day timeframe.

3. Compliance Investigations of High-Risk Vendors

Compliance Requirement - A State agency operating a retail food delivery system must conduct compliance investigations, which consist of inventory audits and/or compliance

buys, on a minimum of 5 percent of the vendors authorized as of October 1 of each year. A State agency must conduct compliance investigations on its high-risk vendors up to the 5 percent minimum. High-risk vendors are identified at least once annually using criteria developed by FNS, and/or other statistically based criteria developed by the State agency and approved by FNS. If the number of high-risk vendors exceeds 5 percent of the total, then the State agency must prioritize vendors for investigative purposes based on their potential for noncompliance and/or loss. If the number of high-risk vendors falls short of 5 percent of the total, the State agency must randomly select enough additional vendors to meet the 5 percent requirement. When a compliance investigation discloses vendor violations, the State agency must take appropriate action against the vendor. Such action includes delaying payment or establishing a claim if a violation affects payment to the vendor; imposing sanctions mandated by program regulations for certain stated violations; and imposing other, less severe sanctions prescribed by the State agency's sanction schedule for lesser violations (7 CFR sections 246.2 (definitions of "compliance buy," "high-risk vendor" and "inventory audit"), 246.12(j)(4)(i) through (iii), 246.12(k)(2) through (4), and 246.12(l)(1) and (2)).

Audit Objective – Determine whether the State agency made required compliance investigations and took appropriate actions against vendors.

Suggested Audit Procedures

- a. Inspect the State agency's vendor files or database to identify the vendors designated as high risk, and to determine the total number of vendors for which compliance investigations were required during the audit period.
- b. Inspect records to determine whether the State agency made the required compliance investigations and established claims against vendors or took other appropriate action based on the findings.

4. Authorization of Above-50-Percent Vendors

Compliance Requirement - Vendors that derive more than 50 percent of their annual food sales revenue from WIC FIs, and new vendor applicants expected to meet that criterion, are referred to as "above-50-percent vendors" (7 CFR section 246.2). Program regulations set restrictions on a State agency's authorization of such vendors to accept WIC FIs, and on the State agency's authority to disburse Federal WIC funds to them. The purpose of these restrictions is to ensure that the average price per FI type that above-50-percent vendors charge WIC participants does not exceed the price charged by regular vendors, either within their peer groups or statewide. FI types are the unique grouping of food items and quantities. The outcome should be that the State agency's use of above-50-percent vendors does not result in higher total food costs if WIC participants transact their FIs at such vendors rather than at regular vendors.

A State agency using above-50-percent vendors must:

- a. Obtain FNS certification of its vendor cost containment system according to one of the following timeframes:
 - (1) By September 30, 2006, if the State had authorized any above-50-percent vendors, and at least every three years thereafter if the State continues to authorize above-50-percent vendors; or
 - (2) Within 90 days of determining it has above-50-percent vendors, if the State had not authorized any above-50-percent vendors as of September 30, 2006, and at least every 3 years thereafter if the State continues to authorize above-50-percent vendors (7 CFR sections 246.12(g)(4)(i) and (vi)).
- b. Ensure that the prices of above-50-percent vendors are not included with the prices of regular vendors for purposes of determining the competitive price selection criteria and maximum allowable reimbursement amounts for all vendors. (7 CFR section 246.12(g)(4)(i)(D)); and
- c. At least quarterly, conduct statewide cost neutrality assessments by calculating and comparing the average redemption amounts for FIs (by type) redeemed by regular vendors against those of above-50-percent vendors (7 CFR section 246.12(g)(4)(i)(D)).

Audit Objective – Determine whether the State agency obtained the required FNS certification on the use of above-50-percent vendors and observed regulatory restrictions on the use of such vendors.

Suggested Audit Procedures

- a. Determine if the State agency currently has agreements with any above-50-percent vendors.
- b. If so, inspect records to verify that the State agency had identified and authorized those vendors.
- c. Verify that FNS certification of the State vendor cost containment system was within the required time frames.
- d. Inspect State agency records to determine that the State agency conducted the required quarterly cost neutrality assessments.
- e. Obtain an understanding of how the State agency ensures that the prices charged by above-50-percent vendors are not included with the prices of regular vendors for purposes of determining the competitive price selection criteria and maximum allowable reimbursement amounts for all vendors. Inspect records of the State agency's competitive price selection criteria and maximum allowable

reimbursement levels to determine that the State agency did not include the prices of above-50-percent vendors in these calculations.