



OCT 20 1998

SUBJECT: Final Policy Memorandum: #99-2
Approval of WIC Electronic Benefits Transfer (EBT) Systems

TO: Regional Directors
Supplemental Food Programs
All Regions

This is to provide policy regarding Federal approval requirements for State development and implementation of EBT systems for the WIC Program. EBT systems in the WIC Program encompass a wide spectrum of functions including the automation of the food benefit issuance and redemption process as well as exchange of client data. WIC EBT can be accomplished via magnetic stripe or integrated chip cards, or electronic transmission and processing of data, or a combination of all of these technologies as functions dictate. This memorandum discusses the objectives of EBT, not the technological method by which it can be accomplished.

EBT Vision

In November 1994, the Supplemental Food Programs Division published the *WIC EBT Vision Statement*, which served to establish key guidelines for future WIC EBT applications. In August 1997, the Food and Nutrition Service (FNS) submitted four-year goals to the Vice President's Reinvention Impact Center Initiative which included an increase in the number of State WIC electronic benefits projects from 1 in 1997, to 7 in 2000. In achieving the Vice President's year 2000 goal, the following guidelines are the cornerstone of the national WIC EBT initiative:

- * *Include WIC as an integral part of the national strategy towards modernizing and streamlining business practices through electronic solutions.*
- * *Deliver WIC benefits and reconcile payments through an EBT system that is cost-effective at the statewide operational level.*
- * *Improve client services through simplified point-of-sale transactions and greater shopping convenience.*
- * *Increase accountability and streamline program monitoring for States.*
- * *Make WIC benefit redemption and payments more efficient for retailers.*
- * *Maximize the technological advantages for WIC in line with evolving commercial sector innovations.*
- * *Promote Federal, State, and retailer partnerships in development and implementation of EBT systems for improved client benefit delivery and program integrity.*

AN EQUAL OPPORTUNITY EMPLOYER

Pursuing this vision, through EBT technology, offers WIC two important opportunities for program improvement. First, the automation of the paper food package issuance and redemption process for WIC clients and grocers streamlines a labor intensive process, and at the same time enhances WIC's ability to track food items and food costs. Second, there is the opportunity to use EBT as the link for the WIC client to other programs and client services such as immunization tracking, Medicaid payments, and other health services.

Processing retailer payments for WIC is currently not a nationally uniform process. Most WIC State agencies currently have in place banking payment systems for WIC retailers. While electronic and expedited payments to retailers are advantageous, the EBT technology offers many other functional and efficiency advantages for grocery stores as well as the WIC Program in general.

Retailers have reported to FNS that they are interested in solutions which will alleviate the burden of insuring that only WIC authorized foods are purchased at check out, expedite the food instrument payment process, and reduce the delays and the resources required to deal with returned food instruments which are denied payment. In WIC, improved service to both retailers and clients should focus on simplifying Point of Sale (POS) transactions so that retailer oversight responsibilities are minimized, and the client receives prompt and courteous service at the grocery store. Because the WIC Program transaction is complicated and time-intensive for grocery stores, the WIC Program wishes to work in partnership with stores to automate this process. Further, it is expected that stores should share financially in order to implement this new technology to the extent it will reduce their current costs and is a sound business decision for grocers.

Other Program Linkages

WIC EBT will most likely involve partnerships with other programs such as Food Stamps, Medicaid, Head Start, TANF, and Immunization to share client data. The Food Stamp Program requires that its State agencies consult with WIC when planning an EBT system. It is anticipated that WIC State agencies will coordinate their plans with other State officials, including the Food Stamp Program and EBT Directors. Through joint projects, WIC and FSP may be able to reduce costs by use of the same EBT contractor to do functions similar in both programs such as retailer settlement, bank processing, and help desk services. Integration of farmers' markets into States electronic benefit delivery plans is a challenge, and FNS has established a task force to work on resolving the problems presented by this unique type of integration.

Functionally, there are three points of intersection for the WIC Program and the FSP: (1) shared benefit redemption at the retailer, (2) shared client population (up to 60 percent of WIC participants also receive food stamps in some States) and (3) shared

goal to protect Program integrity, achieved by facilitating the sharing of authorization and disqualification data on retailers to minimize fraud and abuse.

Regarding the sharing of POS terminals at the grocery store, it is important to emphasize that WIC both delivers and measures its benefits differently than the FSP. WIC delivers a food package of specific, nutritious foods, targeted for the individual health needs of at-risk pregnant, postpartum, and breastfeeding mothers, infants and children. It is crucial that this part of the WIC Program mission be addressed in EBT system plans and that grocery stores understand that WIC EBT will involve additional design features beyond those that enable the basic financial transaction used by the FSP.

Sharing client data is a special challenge, and it is the hope of FNS that EBT can serve as a catalyst to improve the exchange of client data between WIC clinics, FSP and other programs. The exchange of client data could be especially helpful in regard to WIC performing adjunct income eligibility determinations. However, it is understood that linking with other health and welfare data systems may present a challenge. Thus, while it is desirable to put WIC, FSP and other program client data on one EBT card, differences in each program's issuance systems may present integration difficulties. Therefore, States should attempt to better integrate data, but FNS understands this objective is dependent on each State's circumstances and resources.

Finally, WIC and FSP have similar interests in ensuring the integrity of the grocery store transactions in our programs. While strengthened coordination is not a requirement of a WIC/FSP EBT project, it provides an opportunity for EBT to facilitate increased interaction and efficiency between both programs concerning retailer integrity responsibilities.

Funding for EBT

Funds to develop and implement EBT systems will come primarily from the same sources as current funding for ADP systems and other capital investments – State Nutrition Services and Administration (NSA) grants – including regional office discretionary funds, and the annual WIC multi-purpose grant. States are encouraged to share expenses through cost sharing agreements with EBT project partners (e.g., Food Stamp, TANF, Immunization) to the extent that this also benefits the WIC Program.

EBT will offer additional benefits to the WIC Program, however, these additional benefits carry a price. While the costs of implementing and operating EBT continue to decline, initial operational costs may exceed the current paper-based system. State agencies should understand that funding for the continued maintenance and operation of the State's EBT system will come primarily from its annual NSA grant.

EBT System Approval Policy for WIC

WIC regulations at 7 CFR 246.14 require prior approval of the use of WIC funds for automation projects. States will need to obtain prior approval from FNS for all proposed expenditures for EBT projects by submission of Advance Planning Documents (APDs) consistent with the FNS Handbook 901. The WIC APD process for EBT systems should follow as closely as possible the regular process for submission of required documents for WIC ADP systems. However, the funding threshold levels which are considered when determining document requirements and the approval process for State automation projects will not be applied to WIC EBT. As EBT is a new technology for WIC, States should obtain prior approval from FNS for all proposed expenditures for EBT projects.

An Implementation Advance Planning Document (IAPD) is usually required for implementing an EBT system, even if the EBT project is just a component of a larger system redesign. In some cases, an Advance Planning Document Update (APDU) may be the only documentation required if the EBT project is an addition to an earlier APD. The Request for Proposal (RFP) and subsequent contract(s) for EBT development or services continue to be crucial elements in the approval process. RFPs may be submitted for review and approval at the same time as the APD or at another time, as appropriate to the State's procurement plans. For instance, at the discretion of FNS, States may be allowed to submit a partial or preliminary IAPD prior to the release of the RFP, or to submit the IAPD and RFP together for review. States should also be aware that if they are initiating projects which include procurements with the FSP, they will need to observe the FSP procurement rules which are more specific than WIC procurement requirements. As with APD approvals for other automation projects, regional offices should obtain from the State agency those documents appropriate for that State agency's unique situation.

For all EBT projects where the WIC Program is the primary initiating program, the WIC State agency should submit copies of APDs and RFPs to their respective Regional Administrator (RA). Copies will be provided by the RA to the Supplemental Food Program Regional Director, who will provide copies to their designated Regional WIC EBT coordinator, who will then transmit copies to their respective FNS EBT Account Executive. In order to adhere to the FNS agreement to provide a single point of contact to States for EBT approvals, State agencies may choose to send concurrent copies directly to the Regional office and to the EBT Account Executive in headquarters. The FNS EBT Account Executive will then coordinate the Headquarters review and approval process with the Supplemental Food Programs Division (SFPD), the Information Technology Division (ITD), Financial Management (FM), and the Office of Analysis and Evaluation (OAE). In turn, FSP EBT planning documents which include a WIC component will be shared by the respective FNS EBT

Account Executive with SFPD, Regional Program Directors, and their respective WIC EBT coordinators.

While the above instructions are offered as guidelines to submitting documents for EBT systems approval, the process, sequence, and timetable for document submission should be viewed as flexible and sensitive to the system development needs and concerns identified by the Regional office and State agency. Because EBT projects are likely to be multi-program ventures, FNS will be flexible in the documents needed. The State agency and FNS Regional office should discuss plans and customize the documentation requirements for each State agency situation as early as possible in the planning stages.

FSP EBT Contracts with WIC Options

Many States have included WIC as an option in their FSP EBT system solicitation and contract. It is important to note that the approval of a contract for providing FSP EBT benefits and services does not automatically carry with it the approval for the expenditure of WIC funds for an EBT system. It is necessary to secure a separate FNS approval of funding to ensure the availability and encumbrance of WIC money for these joint projects.

There may be situations where, depending upon the approved contract language, it may be appropriate to add WIC services to an existing EBT contract. This is a procurement question, and will need to be addressed on a case-by-case basis, both in terms of individual State procurement laws and Federal contract approvals. However, the legality of a contract or contract modification to add on these services is one issue; FNS's prior approval of the use of WIC Program funds is another. Therefore, an APD/APDU or an IAPD will be necessary to obtain prior approval for WIC EBT systems, and the contract mechanisms the State wishes to use to procure such services should be addressed as a part of the APD.

EBT Functional Guidelines for WIC

The following is a general list of functions which FNS believes should be addressed in the design of an EBT system. Although State agencies may wish to introduce some functions in advance of others, such as the electronic transmission of the financial transaction settlement, this is discouraged unless the State can demonstrate that the overall costs of doing so would be cheaper than current check processing costs.

- 1. Ensure that the participant is able to purchase the full prescribed WIC food package, at their discretion within the valid period of issuance, and that the WIC food transaction affords the participant dignity and convenience.*

Current paper food instrument systems restrict the number of shopping trips for the participant, and are cumbersome to transact. EBT should ensure the participant shops as other customers do, and has the flexibility to purchase the quantities of foods she needs whenever she wishes.

2. Ensure that the participant is able to purchase only WIC authorized foods and foods are not improperly substituted.

The current system of depending on the store cashier to screen participant purchases is burdensome and problematic. The main objective is to ensure only WIC authorized foods are purchased. In fact many large grocery stores have already incorporated features in their store scanning systems which deny an inappropriate WIC food choice. EBT should further facilitate this important integrity feature.

3. Provide data on the type, brand and cost of each food item so that State agencies can better control food costs through informed food package decisions and maximization of rebates on infant formula and other foods.

To improve WIC Program administration, any EBT solution should better account for the types of food purchased, especially infant formula. Most State agencies rely on issuance records because multi-food item food instruments do not capture actual redemptions by food item. An EBT solution should provide for item-by-item tracking by UPC, quantity, dollar value charged, and redemption date, in order to give State agencies the necessary tools to produce accurate infant formula bills. In addition to using staff resources more efficiently and eliminating most billing disputes, a complete infant formula rebate billing system through EBT could help ensure more advantageous bids for States, since infant formula companies will not need to build the additional administrative costs and potential losses into their bids.

Additionally, beyond infant formula, similar data should be collected for other foods as well, at least on a sample or periodic basis to monitor costs and to support decisions on possible rebates on other foods or other cost control initiatives.

4. Ensure that WIC clients are charged no more than contract price or shelf price for food as other customers.

By gaining information from grocery store scanning and cash register systems, which automatically identify a food's price at check-out, WIC can be reasonably assured that it is paying no more than other customers for WIC purchases.

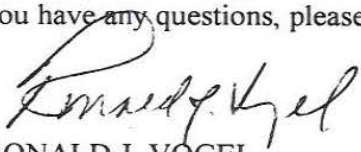
5. Enable the food retailer to complete the WIC transaction efficiently and properly and assure that the cost of the EBT system for a WIC transaction is reasonable for both the State and the retailer.

Currently, food instruments are rejected for a variety of reasons such as being over the price limit, outside-of date limits, altered, and so on. The automation of the food instrument transaction process to reduce the occurrence of such errors will save valuable grocery store and WIC staff time in screening for such errors and making payment adjustments. In developing the business case for implementing EBT, State agencies and grocery stores should consider their current, respective food instrument processing costs compared to costs under an EBT system.

6. Ensure that WIC food expenditure and rebate savings data, compiled by the State or outside entity, is accurate, provided promptly and in a timely manner, and allows the State agency to make better management decisions.

There is considerable disparity between States in the timeliness and accuracy of food expenditure and rebate savings data. In those States where informative food costs and rebate data is not provided in a timely fashion, EBT should facilitate easier production of cost and savings reports to enable the State to make more cost-effective food package management decisions. Among other uses, EBT transaction processing and redemption data should also be made available to facilitate Program integrity monitoring by identifying irregular retailer and participant transactions, and to provide information regarding participant food purchasing patterns.

FNS hopes that this guidance is helpful to States in planning their EBT initiatives. If you have any questions, please contact the Regional office.



RONALD J. VOGEL
Acting Director
Supplemental Food Programs Division



THOMAS O'CONNOR
Director
Benefit Redemption Division