

**DEPARTMENT OF HEALTH
PUERTO RICO WIC PROGRAM
POLICY AND PROCEDURE MANUAL**

**POLICY AND PROCEDURE: 6.19
EFFECTIVE DATE: MAY, 2017**

VENDOR MANAGEMENT

COST CONTAINMENT METHODOLOGY

POLICY

The Puerto Rico WIC Program (PR WIC) may only authorize Above-50-percent vendors with its Cost Containment Certified Methodology, at least every three (3) years, with the approval of the Food and Nutrition Service (FNS), as described in the Code of Federal Regulations 7 CFR 246.12(g). The PR WIC will establish a vendor peer group system, distinctive competitive price criteria, and allowable reimbursement levels for each peer group and cost neutrality measurement to ensure the most competitive prices.

The PR WIC Cost Containment Methodology:

- includes the implementation of methods that distinguish Above-50-percent vendors from Regular Vendors within 6 months of being authorized, and annually;
- bases competitive price criteria and maximum allowable reimbursement amounts from the shelf prices of Regular Vendors
- applies appropriate reimbursement limits during the food instrument redemption process and makes price adjustments to any payments that exceed the maximum allowable reimbursement level; and
- reimburses Above-50-percent vendors at a level that should achieve overall cost neutrality under section 7 CFR 246.12(g)(4)(i)(D) and the Final Rule published on October 8, 2009;
- Maximum Allowable Reimbursement Levels (MARLs, for its English acronym) are set monthly for Regular Vendors and for Above-50-percent vendors, ensuring compliance with cost containment objective.

PROCEDURE**1. Cost Containment Methodology used by the State agency to derive new competitive price levels for Regular Vendors**

- a) The competitive prices by peer group are calculated based on prices submitted by Regular Vendors in the shelf price survey included in the vendor selection application, and subsequently, twice a year in the Vendor's Shelf Price Survey. Above-50-percent vendors' survey prices are excluded from this calculation.

- b) The **Competitive Price** of each food item in each peer group will be the average price of all Regular Vendors in the peer group, excluding outliers, plus 15%. Outliers will be prices over or under the average price for each food type plus two standard deviations.
- c) The prices submitted in the shelf price survey by each vendor (Regular and Above 50% alike) are compared against the competitive prices calculated by peer group for the vendor's peer group.
- d) For exempt formulas, the **Competitive Price** is the manufacturer's highest sales price plus 20%.
- e) The PR WIC will request the vendors their shelf prices during the vendor initial selection process and at least every six (6) months following the authorization process.
- f) If the price for any food item exceeds the calculated competitive price for the peer group, it is deemed non-competitive and the vendor is notified of each price that exceeds the competitive price determined for each food type.
- g) The PR WIC will notify those vendors that do not comply with the competitive prices and they will have the opportunity to adjust the prices and submit a letter certifying the acceptance of the adjustments made by the PR WIC to prices to be competitive in order to remain as an authorized vendor. The vendors will have fifteen (15) days from the day of the notification sent by The PR WIC to comply with this requirement and to notify The PR WIC their acceptance. If the vendors do not accept and certify that will adjust the prices, as requested by the PR WIC, the vendor will not be authorized as a PR WIC vendor and/or the vendor agreement will be terminated.

2. Cost Containment Methodology for establishing MARLs for Regular Vendors and Above-50-percent vendors

- a) **The allowable reimbursement levels are linked to the competitive price criteria applied during the vendor authorization process to ensure that they continued to meet the competitive price criteria throughout the authorization period.**

For transactions redeemed with EBT

- (i) To ensure the maximum allowable reimbursement level calculation is linked to the competitive prices, The Maximum Allowable Reimbursement Level for each food type per peer group for Regular Vendors is equal to the competitive price for the food type determined from the prices submitted by Regular Vendors in each peer group. The Maximum Allowable Reimbursement Level for Each food Type per peer group for Above 50% vendors is the average prices paid to Regular Vendors in each peer group or island wide, whichever is lower for the previous month.

For transactions with Food Instruments (FIs)

- (i) The MARL for Regular Vendors will be the price calculated for each peer group for each FI from the competitive prices for each food type every month and when a price's survey is performed.
 - (ii) The MARL for Above 50% vendors will be the average price paid to Regular Vendors for each food type the previous month in the peer group or island wide, whichever is lower.
 - (iii) The average of the highest competitive price per category in all peer groups is used to determine the Maximum Competitive Price for each check type.
 - (iv) The average of the lowest prices for each category is used to determine the Minimum Reasonable Price of each check type.
 - (v) Only FIs whose prices fall within the Maximum Competitive Price and the Minimum Reasonable Price, determined at the time of the shelf price survey are included in the calculation of the MARL for check types.
 - (vi) Outliers below the Minimum Reasonable Price will be identified as exceptions and placed on hold to be evaluated for errors or partial redemptions. If the prices are correct and for the full FI contents the FI is paid and included in the MARL calculation. If the low price is determined to be due to a partial redemption, it is not paid, and therefore exclude from the calculation.
- b) The State agency will ensure that average payments to Above-50-percent vendors do not exceed average payments to comparable vendors;**

For redemptions using EBT:

- (i) Maximum Allowable Reimbursement Levels (MARLs) for Regular Vendors are equal to the Competitive Price for Each food Type within the peer group.
- (ii) The Maximum Allowable Reimbursement Levels per food type for Above 50% vendors within each peer group are calculated each month from the redemptions in the previous month. MARLs per food type per peer group for Above-50-Percent vendors are equal to the average paid amount for the food type for Regular Vendors within the group or the Island-Wide average paid amount for Regular Vendors for the food type, whichever is lower.

Pre-edit-

- (i) If the Food type price exceeds the applicable Maximum Allowable Reimbursement per food type for the peer group and vendor classification the payment amount will be adjusted to the Maximum Allowable Reimbursement level (for the peer group and vendor classification) and then paid.

- (ii) At least quarterly, average payment amounts for Above 50% vendors are compared to average payment amounts to using both a T Test and Cost Neutrality Reports.

Post edit

- (i) To be used only when the T-Test reveals an excess payment instead of guessing how much to manually adjust the next months' MARLs. If the Above 50% vendors' average price for a food item exceeds the Regular Vendors' average price for a food type the excess Above the average price paid for each food type item will be calculated and debited from future payments, so that no Above 50% vendor is paid more than the island wide average price.

For redemptions using FIs The Maximum Allowable Reimbursement levels per check type within peer group are calculated each month for Above 50 % vendors, and for Regular Vendors

- (i) If the Food Instrument amount exceeds the applicable Maximum Allowable Reimbursement per check type for the peer group and vendor classification the payment amount will be adjusted to the Maximum Allowable Reimbursement level (for the peer group and vendor classification) and then paid.
- (ii) At least quarterly, average payment amounts for Above 50% vendors are compared to average payment amounts to Regular Vendors using both a T-Test and the Cost Neutrality Report.

The State agency has exempted vendors from the competitive price criteria and allowable reimbursement levels for participant access reasons.

Vendors in the municipality islands of Vieques and Culebra.

Also military commissaries are exempt from the cost containment process as per the Memorandum of Understanding (MOU) between the US Department of Agriculture and the US Department of Defense.

3. The State agency’s methodology for grouping Above-50-percent vendors in its peer group system and how the State agency identifies comparable vendors for each group of Above-50-percent vendors

a) Identifying Comparable Vendors

Peer grouping is a method used for evaluating food costs among “like vendors.” The Puerto Rico WIC Program will have peer groups according to their geographic area. There will be five main geographic areas: Metro, North, South, East and West. Such changes are based on their geographic area and socioeconomics conditions.

The following table shows the distribution of the municipalities according to the geographic criterion:

Geographic Areas

I	II	III	IV	V	VI
Metro	North	South	East	West	Excluded
Municipality	Municipality	Municipality	Municipality	Municipality	Municipality
Bayamón	Arecibo	Adjuntas	Aguas Buenas	Aguada	Culebra
Carolina	Barceloneta	Aibonito	Caguas	Aguadilla	Vieques
Cataño	Barranquitas	Arroyo	Canóvanas	Añasco	Military Commisaries
Guaynabo	Camuy	Cayey	Ceiba	Cabo Rojo	
San Juan	Ciales	Coamo	Cidra	Guánica	
Toa Baja	Comerío	Guayama	Fajardo	Hormigueros	
Trujillo Alto	Corozal	Guayanilla	Gurabo	Isabela	
	Dorado	Jayuya	Humacao	Lajas	
	Florida	Juana Díaz	Juncos	Las Marías	
	Hatillo	Maunabo	Las Piedras	Maricao	
	Lares	Patillas	Loíza	Mayagüez	
	Manatí	Peñuelas	Luquillo	Moca	
	Morovis	Ponce	Naguabo	Quebradillas	
	Naranjito	Salinas	Río Grande	Rincón	
	Orocovis	Santa Isabel	San Lorenzo	Sabana Grande	
	Toa Alta	Villalba	Yabucoa	San Germán	
	Utua			San Sebastián	
	Vega Alta			Yauco	
	Vega Baja				

b) Peer groups

The Puerto Rico WIC Program’s peer group system will consist of the following:

Retailers including Regular Vendors and Above 50% vendors will be classified by business size accordingly their annual gross sales. The following table shows the business classification criteria by small, medium and large using their annual gross sales:

GROSS SALES

I - Metro 1. Small - up to \$500,000 in annual gross sales 2. Medium - more than \$500,000 and up to \$3,000,000 in annual gross sales 3. Large - more than \$3,000,000 annual gross sales
II - North 1. Small - up to \$500,000 in annual gross sales 2. Medium - more than \$500,000 and up to \$3,000,000 in annual gross sales 3. Large - more than \$3,000,000 annual gross sales
III – South 1. Small - up to \$500,000 in annual gross sales 2. Medium - more than \$500,000 and up to \$3,000,000 in annual gross sales 3. Large - more than \$3,000,000 annual gross sales
IV – East 1. Small - up to \$500,000 in annual gross sales 2. Medium - more than \$500,000 and up to \$3,000,000 in annual gross sales 3. Large - more than \$3,000,000 annual gross sales
V - West 1. Small - up to \$500,000 in annual gross sales 2. Medium - more than \$500,000 and up to \$3,000,000 in annual gross sales 3. Large - more than \$3,000,000 annual gross sales
VI - Culebra, Vieques and Military Bases 1. Retailers including Regular Vendors and Above 50% vendors 2. Military Commissaries

c) Vendor Classification

The PR WIC uses NAP food sales and documented gross sales to determine if vendor is a Regular or Above-50-percent vendor. For the purpose of the vendor classification process, “food sales” are all foods that are eligible items under the Nutrition Assistance Program (NAP).

i. Classification Process for Current Vendors during the selection process

If the food sales information available for a NAP vendor who is also a WIC vendor is for a lesser period than the previous calendar year, the PR WIC uses the WIC sales information for the same period to evaluate and classify the vendor.

ii. Six month and yearly peer vendor classification review:

- a. The PR WIC determines whether current vendors meet the Above-50-percent vendor criterion, calculating annual WIC redemptions as a percentage of the vendors' total annual food sales revenue.
 - (i) The food sales information reported by the NAP Program and the information of the vendor's WIC redemptions are used to classify vendors as Regular or potential Above 50% vendors. If the store is determined to be a potential Above-50-percent vendor based on the comparison of WIC and NAP redemptions, then the vendor total food sales amount is compared to WIC sales and if the WIC food sales amount is greater than 50% of the total food sales amount, the vendor is classified as an Above 50% vendor.
- b. Otherwise the vendor store is classified as a Regular Vendor.

iii. Vendor Classification During The Vendor Authorization Process

The application requires each vendor to state whether the store is a Regular or an Above-50-percent vendor, and to provide the latest total annual gross income from food and non-food sales as evidenced in the supporting documentation. The PR WIC will determine whether current vendors meet the Above-50-percent vendor criterion, calculating annual WIC redemptions as a percentage of the vendors' total annual food sales revenue.

- a. A vendor who chooses the Above-50-percent classification will automatically be classified as an Above-50-percent vendor. No further calculations will be performed.
- b. A currently authorized vendor who chooses the Regular Vendor classification will be classified as a Regular Vendor if NAP sales are greater than WIC sales.
- c. If the vendor's WIC sales are greater than its NAP sales, then the vendor's documented food sales amount provided by the vendor (as a requirement is compared to WIC sales) and if the WIC food sales amount is equal to or less than 50 percent of the calculated amount, the vendor is classified as a Regular Vendor.

iv. Classification Process for New Vendors

The application requires vendor applicants to state if they expect to derive more than 50 percent of their annual revenue from the sale of food items from transactions involving WIC food instruments.

- a. A vendor who chooses the Above 50% classification will automatically be classified as an Above-50-percent vendor. No further calculations will be performed.

- b. If a new vendor answers in the negative, the Puerto Rico WIC Program will determine whether new vendor applicants are expected to be Above-50-percent vendors.
 - i. If the vendor owns other stores the Program will calculate WIC redemptions as a percent of total food sales in existing WIC-authorized stores owned by the vendor. If other stores are classified as Above 50% vendors, the store in which the vendor is applying will be classified as Above 50%.
 - ii. If the vendor owns other stores and none are authorized by the WIC Program, the store is classified as a regular store until the six month reassessment of new authorized vendors.
- c. If the vendor is expected to be an Above-50-percent vendor under any of these criteria, then the vendor will be treated as an Above-50-percent vendor until the six month review. Otherwise, vendors who state they are Regular Vendors are classified as Regular Vendors and reviewed within six months after authorization.
- d. In accordance with 7 C.F.R. 246.12(g)(4)(i)(B) and the Final Rule published on October 8, 2009 the Puerto Rico WIC Program reassesses the status of new vendors within six months after authorization to determine whether or not the vendors are Above-50-percent vendors, and whether they must be reassigned to another peer group.
- e. The Puerto Rico WIC Program reassesses the status of all vendors yearly.

4. Competitive Price Assessment By Redemptions Of The 20 Most Frequently Redeemed Check Types

The Puerto Rico WIC Program has developed a quarterly “Competitive Price Assessment” by comparing redemptions of the 20 most frequently redeemed Check Types by Regular Vendors in each peer group. Check Types with sole products with prices fixed by the government will not be considered in the top 20 most frequently redeemed check types. To calculate the average competitive price, PRWIC will consider the claimed price of all Regular Vendors in the peer group for the 20 most frequently redeemed check types plus two standard deviation.

- a) The sum of the average prices plus the two standard deviations for the 20 most redeemed check types by Regular Vendors are compared to the average claimed price per check type for all authorized vendors who redeemed check types within the 20 most redeemed by Regular Vendors. Vendors with 15 or more of 20 most redeemed check types by Regular Vendors will be evaluated for non competitiveness based on quarterly redemptions.

- b) If the vendor's average prices sum exceeds the peer group's averages prices sum of the peer group Regular Vendors plus two standard deviations, the vendor's prices are deemed to be non-competitive, even if the price per check type does not exceed the vendors' authorized shelf prices.
- c) Prices which are over 2 standard deviations above the average peer group prices are excessively high. Maintaining competitive prices is an eligibility requirement, if the vendor's prices are deemed to be non-competitive during two consecutive quarters, the vendor agreement may be terminated. Vendors could remain in the program if the termination would cause inadequate participant access.
- d) This test will be performed quarterly. If a vendor is deemed to have non competitive prices during two consecutive quarters, the agreement will be terminated for cause.

5. Competitive Price Assessment For Redemptions Using EBT

Since EBT eliminates the use of paper Food Instruments, PRWIC's methodology for assessing competitive prices by redemptions once EBT is implemented will utilize a market basket index. This will provide a calculated cost per participant using the vendors actual prices for each food categories, which will be a fair measure of the vendors' price competitiveness. An example is provided to illustrate this methodology.

Market basket calculation formula:

1. **Food category volume factor** = food category volume redeemed per month/number of participants per month
2. **Food category average price** = Food category volume factor X vendor's average price for the food category.
3. **Market basket price for each vendor** = sum of the **food category average prices**.
4. An average market basket index for each peer group will be calculated by adding all the market prices for the Regular Vendors in each peer group and dividing the sum by the number of Regular Vendors in each peer group.
5. Vendors whose average market basket price is greater than the average market basket price for the peer group plus 2 standard deviations, during two consecutive quarters will be deemed as having noncompetitive prices.

6. Quarterly Cost Neutrality Assessment

Each month the WIC **Vendor Cost Containment Average Payments to Vendors Report** is generated and analyzed to determine if additional actions are required to maintain cost neutrality. Additionally, the Puerto Rico WIC Program will perform cost neutrality assessments on a quarterly basis. The T-Test will be used to assess the effectiveness of the cost containment process. In the event the assessment test reveals a check type as statistically significant higher, the PR WIC will perform a detailed

analysis to determine the cause of an irregularity an adjustment will be performed. If the overpayment is determined to be a trend the MARL will be adjusted for the next quarter.

PR WIC reserves the right to assess and amend the procedure as required with FNS prior approval.