

Vendor Gap Analysis

Gap Analysis

Final



431 North Franklin, Suite 400
Juneau, Alaska 99801

Contact: Jason Mancuso
Phone: 503-860-6724
Fax: 586-6832
e-mail: jmancuso@resdat.com

September 30th, 2010

Version	Date Modified	Name	Changes
0.1	July 23 rd , 2010	Mancuso	Initial Version – for Review.
0.2	August 2 nd , 2010	Mancuso	Document updates for organization and grammar based on Ursula Sfraga comments and suggestions.
0.3	August 24 th , 2010	Mancuso	Added in NTE Authorized Warrant Section and addressed edits made by Ursula Sfraga.
0.4	September 9 th , 2010	Mancuso	Added Vendor Peer Groups and Banking Contractor Service Sections.
Final	September 30 th , 2010	Mancuso	Final Version

Table of Contents

DEFINITIONS	4
INTRODUCTION	5
PURPOSE	5
DEFINITION OF GAP ANALYSIS.....	5
SCOPE	5
ORGANIZATION	5
AUDIENCE	5
GAP ANALYSIS	6
SECTION 1.0: VENDOR MANAGEMENT	6
<i>Overview: Vendor Management</i>	6
<i>Summary of Challenges: Vendor Management</i>	7
<i>Analysis: Vendor Management</i>	9
1.1 Vendor Management Function Analysis: Vendor Application	9
Desired Solution: Vendor Application	10
1.2 Vendor Management Function Analysis: Vendor Maintenance	12
Desired Solution: Vendor Maintenance	15
1.3: <i>Vendor Management Function Analysis: Vendor Monitoring</i>	16
Desired Solution: Vendor Monitoring	18
1.4 Vendor Management Function Analysis: Vendor Compliance	19
Desired Solution: Vendor Compliance	20
1.5 <i>Vendor Management Function Analysis: Mail Order Vendors</i>	21
Desired Solution: Mail Order Vendors	24
SECTION 2.0: VENDOR PEER GROUPS	25
<i>Overview</i>	25
<i>Summary of Challenges</i>	26
<i>Analysis</i>	27
Desired Solution	27
SECTION 3.0: BANKING CONTRACTOR SERVICES	28
<i>Overview</i>	28
<i>Summary of Challenges</i>	28
<i>Analysis</i>	29
Desired Solution	29
SECTION 4.0: NOT TO EXCEED (NTE) AUTHORIZED WARRANTS AND STANDARD DEVIATION	30
<i>Overview</i>	30
<i>Summary of Challenges</i>	31
<i>Analysis</i>	31
Calculation	31
Calculation Findings	33
Desired Solution	34
SUMMARY	35
APPENDIX A: VENDOR APPLICATION FLOW DIAGRAM	36
APPENDIX B: VENDOR MONITORING FLOW DIAGRAM	37
APPENDIX C: SERVICES PROVIDED BY KEYBANK	38

Acronyms

Acronym	Definition
WIC	Women, Infants and Children
SOA	State of Alaska
NTE	Not to Exceed
AKWIC	State of Alaska's WIC programs proprietary information system
DHSS	Department of Health and Social Services
PM	Project Manager
MOV	Mail Order Vendor
FY	Fiscal Year
SNAP	Supplemental Nutritional Assistance Program
LA	Local Agency
FI	Food Instrument

Definitions

Definition	Description
Warrant	A warrant is a security issued by SOA providing holder with ability to purchase certain amount of WIC approved food. A warrant works very similar to a check.

Introduction

Purpose

The purpose of this document is to provide Gap Analysis of Vendor processes that exist today which can be improved on in the future. This analysis will ultimately be used to supplement a Final Summary Report which summarizes findings and recommends opportunities to improve current Vendor processes performed by the State of Alaska, Department of Health and Social Services, WIC Agency.

Definition of Gap Analysis

Gap Analysis can often take on different meanings depending on the context and industry in which the term is used. To avoid confusion with an overloaded meaning, the term Gap Analysis for this project can be defined as *the evaluation of processes today relative to desired processes in the future*.

Scope

The Gap Analysis will focus on the following four Vendor Process subsections:

- Vendor Management
- Vendor Peer Groups
- Banking Contractor Services
- Not to Exceed (NTE) Authorized Warrants and Standard Deviation

Given the limited time frame of the analysis, focus will be directed toward those processes which fall in one of the above subsections and which have been identified as a prospect for improvement.

Though each of the subsections may directly impact WIC Participants, emphasis will be on vendors and the Local Agencies who work with those vendors.

Organization

To address the complexity of the four categories in the scope of this document, each will be individually assessed in the main Gap Analysis. Included in each subsection will be a unique overview, summary of challenges and detailed analysis. Each subsection will then be tied together in a table highlighting the Gap Analysis.

Audience

The intended audiences of the Gap Analysis are those with a direct interest in improving on vendor processes in place today.

Gap Analysis

Section 1.0: Vendor Management

This section will focus on the various functions in place used to manage vendors participating in the WIC program.

Overview: Vendor Management

For the WIC program to succeed, the State WIC Agency must manage vendors to ensure that participants have access to nutritious foods prescribed for their individual needs.

At the time of this document's creation there are nearly 200 vendors undergoing vendor management. This number fluctuates continually as new vendors are approved for inclusion and existing vendors leave the program (for voluntary or involuntary reasons). Though the number of vendors is manageable, processes in place today are often manual, disjointed, tedious and prone to error.

Complicating matters, the State of Alaska is unique from other states as many participants of the WIC program reside in areas too remote to support vendors, resulting in the need for WIC to contract Mail Order Vendors (MOV) to ship nutritional packages to participants away from populated areas. Managing and monitoring the MOV's comes with a unique set of challenges and operational considerations.

Through hard work and an extensive knowledge of the system, the SOA WIC Agency is able to carry out the activities currently required to ensure vendors and eligible participants alike, continue to benefit from the WIC program. However, because so many of the processes are manual and disjointed, the opportunity for exhaustive and error prone efforts increases limiting growth and improvement of vendor management by the SOA WIC Agency.

Those directly responsible for maintaining the day-to-day activities of vendor management understand best the challenges faced with manual and disjointed processes. The knowledge they contributed of these processes and their challenges will be the foundation for the Vendor Management analysis.

Vendor Management covers a lot of functions all of which will be looked at and grouped logically in the Summary of Challenges and Analysis sections to follow. The below list represents those functions to be covered:

- Vendor Application
- Vendor Maintenance
- Vendor Monitoring
- Vendor Compliance
- Mail Order Vendors

It's possible that many of the processes involved in Vendor Management overlap amongst these functions, in such cases notation will be made.

Of the above functions identified, it was determined that while some were process intensive with a sequential flow, other functions were more independent task and role driven. As a result, each function will be evaluated in a unique and customized way. Though this decreases the uniformity of the analysis it allows the analysis to cater to the individual functions themselves.

Summary of Challenges: Vendor Management

The following table indicates problems with Vendor Management, prioritized and grouped by function and issue.

Priority	Function	Issue	Description of Problem
(1) High	All Functions	Disjointed Information Tracking	There are various tools and applications used to track information on vendors. Having various sources both electronic and hard copied cause significant work in terms of duplicated efforts and report creation.
(1) High	All Functions	Manual Processing	Most if not all letters generated as correspondence with Local Agencies and Vendors are manually created. There currently isn't any way to automatically generate these letters or even a set template to base the letters off of.
(1) High	All Functions	Resource Allocation	With an abundance of manual processes WIC Agency staff is stretched thin on the amount of work they can do given a single staff member is responsible for the majority of day-to-day operations.
(1) High	Mail Order Vendors	Disjointed Information Tracking	Various functions required in maintaining MOV's are carried out by many different individuals resulting in redundant work, disconnect in information and lack of audit.
(1) High	Mail Order Vendors	Disjointed Information Tracking	There exists a disconnect in food items included per warrant type that Local Agencies see relative to what is entered into AKWIC. The result of which is Local Agencies prescribing a nutritional package that isn't what the actual client receives from the MOV.
(1) High	Mail Order Vendors	Manual Processing	Files transmitted to Fred Meyer indicating issuances are a manual process that requires human interaction.
(1) High	Mail Order Vendors	Manual Processing	Manual entry of prices for MOV in AKWIC is extremely tedious with no auto-fill capabilities. In addition, no constraints to prevent duplicate entry of the same item (i.e. UHT Milk vs. Milk UHT).
(1) High	Vendor Application, Vendor Maintenance	Manual Processing	Vendors are required to submit the minimum stock / price sheet for vendors. This process is entirely manual requiring vendor to fill out paper form and submit to WIC Agency who then manually reviews to verify minimum requirements are met and form is fully complete. At no point is verification or details of form electronically stored.
(2) Medium	Vendor Application, Vendor Maintenance	Manual Processing	Files transmitted to KeyBank indicating current active vendors are a manual process that requires human interaction. (This challenge was downgraded from High to Medium given the infrequent file transmission)
(2) Medium	Mail Order Vendors	Disjointed Information Tracking	A lot of information that is tracked regarding incomplete or non-received packages, change of address, etc. requires client contacting local agency who contacts WIC Agency who then contacts Fred Meyer. There is no way today where Local Agencies can directly transmit issues, etc. to Fred Meyer. (This challenge might best be refined internally)
(2) Medium	Vendor Application	Interagency communication	Verifying applying vendors are authorized under the SNAP Program. Though verification of vendors authorized under SNAP program can be tedious when not immediately known or found in the federally provided database, the

Priority	Function	Issue	Description of Problem
			frequency in which this effort occurs is low (new application and re-authorization). NOTE: SNAP participation should be re-confirmed during re-authorization but is often not.
(2) Medium	Vendor Application	Manual Processing	Vendors are stored only in VENDMAST.xlsc electronically until the Local Agency has successfully reviewed the vendor, at which point they are added to AKWIC.
(2) Medium	Vendor Application	Disjointed Information Tracking	New Vendors approved and authorized must be logged in various tools and applications (i.e. AKWIC and VENDMAST.xlsc)
(2) Medium	Vendor Monitoring, Vendor Compliance, Vendor Maintenance	Disjointed Information Tracking	When Sanction points are assessed against a vendor AKWIC doesn't have the availability to total by contract period so a separate file (sanction.xlsc) must be maintained with running total for the contract period.
(2) Medium / Low	Vendor Monitoring, Vendor Maintenance	Report Availability	Inability to automatically capture data related to warrants being utilized per vendor and month. This information is important for analysis and reporting requirements and today reports of this nature have to be manually compiled. One example of this was filtering out farmer market warrants from the general warrant reports.
(3) Low	Mail Order Vendors	Manual Processing	Though AKWIC has all the required information there are no built in audits or reports that would ease reconciliation of invoices, as a result manual reconciliation must be performed.
(3) Low	Mail Order Vendors	No process in place	There currently aren't any audits of postage totals as invoiced by MOV.
(3) Low	Vendor Compliance, Vendor Monitoring	Disjointed Information Tracking	After a compliance buy or vendor monitoring session is performed the Local Agency submits findings to WIC Agency who then has to log results in various tools and applications.
(3) Low	Vendor Maintenance	Disjointed Information Tracking	Per vendor a single contact log word document is maintained detailing correspondence that occurs with the vendors, usually across telephone. The log itself serves a valuable purpose but requires a separate file to be updated not directly associated to any single application. Often the only time Local Agencies report issues is when they have had to deal with the same issue over and over.
(3) Low	Vendor Maintenance	Manual Processing	In the rare occurrences a complaint goes against a vendor, only hard copies of the complaint are maintained.
(3) Low	Vendor Monitoring	Report Availability and Export	Identification of vendors which should undergo monitoring are currently selected by the WIC Agency since the Local Agency doesn't have direct access to 602 report (among others) detailing history of monitoring and compliance buys.
(3) Low	Vendor Monitoring	Resource Allocation	Vendor Monitoring is crammed toward end of the fiscal year resulting in increased workload and strain on WIC Agency staff. It's possible that the monitoring visits are being performed, but actual submission of the results is not always done in a timely fashion.
(3) Low	Vendor Monitoring	Report Availability	Reports that could be easily run from a single source to help identify vendors to monitor and track are in lacking.

Priority	Function	Issue	Description of Problem
(3) Low	Vendor Maintenance	Resource Allocation	There is no way around traveling to perform on-site monitoring and compliance buys, but lack of online interactive tools increase probability of issues when performing a monitoring visit or compliance buy.

Table 1: Vendor Management Challenges

Having established the primary challenges encountered with Vendor Management, the foundation of the analysis has been set.

Analysis: Vendor Management

Each of the functions defined as part of Vendor Management will be analyzed in detail below in sections 1.1-1.5.

1.1 Vendor Management Function Analysis: Vendor Application

Vendor Application is a set workflow, mostly manual, initiated when a Vendor contacts the WIC Agency about joining the program. During Fiscal Year (FY) 2008 eleven new vendors applied, of the eleven, five were approved. Given the limited number of new vendor applications per year the priority in addressing challenges related to the Vendor Application would seem inconsequential relative to various other functions in Vendor Management. However, because a vendor becoming approved takes on average 2-3 months and most processes are manual, WIC Agency staff must remain cognizant of pending vendors. Additionally, many of the processes required as part of the Vendor Application are processes which also occur in other functions of Vendor Management, most notably submittal and review of the Minimum Requirements / Price Sheet form.

Vendor Application is a sequential workflow of processes. As a result, the best way to understand the processes involved is to understand the flow one process to the next and what decisions result in one process being performed over another. [Appendix A: Vendor Application Flow Diagram](#) clearly demonstrates those processes which make up Vendor Application. The flow diagram was useful in it allowed each process to be examined carefully and from those processes identify which had the most opportunity for improvement.

Though Vendor Application conceivably could be almost entirely automated, two separate classifications were made: Improvement Needed and Improvement Potential. Improvement Needed are those processes identified that have a tight correlation to challenges identified as part of Vendor Management in the [Summary of Challenges](#) and where it would be beneficial to WIC Agency to resolve. The Improvement Potential classification are processes identified as creating a challenge for the WIC Agency, but addressing the challenges is not a high priority at this time.

The below lists summarize what was identified in the flow diagram for each of the classifications:

Improvement Needed

- WIC Searches USDA Online Database
- WIC Agency contacts SNAP to Verify if Vendor is Approved
- Application, Vendor manual, Minimum Stock / Price Sheet sent to Vendor
- Vendor Completes Required Information and Sends Back
- WIC Agency Verifies Information is Complete
- WIC Agency Notifies Vendor of Incomplete Information
- WIC Agency Verifies Vendor is Eligible

- WIC Agency Logs Information into AKWIC and Updates VENDMAST.xlsx

Improvement Potential

- Banking Form and Contract Sent to Vendor
- Vendor Completes Banking Form and Contract and Sends Back to Agency
- WIC Agency Reviews Banking Form and Contract
- WIC Agency Notifies Vendor of Error

Having classified the various processes either as Improvement Needed or having Improvement Potential, a connection can be drawn to the direct challenges faced by the WIC Agency for the individual processes.

Improvement Needed

Process	Challenge
WIC Searches USDA Online Database	Disjointed Information Tracking
WIC Agency Contacts SNAP to verify if Vendor is Approved	Interagency Communication
Application, Vendor Manual, Minimum Stock, Price Sheet sent to Vendor	Manual Processing
Vendor Completes Required information and Sends Back	Manual Processing
WIC Agency Verifies Information is Complete	Manual Processing
WIC Agency Notifies Vendor of Incomplete Information	Manual Processing
WIC Agency Verifies Vendor is Eligible	Manual Processing
WIC Agency Logs information into AKWIC and Updates VENDMAST.xlsx	Manual Processing
WIC Agency Logs information into AKWIC and Updates VENDMAST.xlsx	Disjointed Information Tracking

Table 2: Vendor Application Improvement Needed

Improvement Potential

Process	Challenge
Banking Form and Contract Sent to Vendor	Manual Processing
Vendor Completes Banking Form and Contract and Sends Back to Agency	Manual Processing
WIC Agency Reviews Banking Form and Contract	Manual Processing
WIC Agency Notifies Vendor of Error	Manual Processing

Table 3: Vendor Application Improvement Potential

Desired Solution: Vendor Application

With a connection drawn between the processes identified as needing improvement or with potential for improvement and correlating them to challenges, the last thing left to do is identify a desired solutions to the individual challenges.

Process / Task	Current Challenge	Desired Solution	Priority
Application, Vendor Manual, Minimum Stock, Price Sheet sent to Vendor	Manual Processing	Online Application made available to vendors in which they could enter minimum stock and price sheet information.	High

Process / Task	Current Challenge	Desired Solution	Priority
Vendor Completes Required information and Sends Back	Manual Processing	Online Application made available to vendors in which they could enter minimum stock and price sheet information.	High
WIC Agency Verifies Information is Complete	Manual Processing	Online Application would perform validation. Though Vendor could save progress, Minimum Stock / Price Sheet would not be considered complete until automated validation successfully completed.	High
WIC Agency Notifies Vendor of Incomplete Information	Manual Processing	Vendor would be aware of any incomplete information by Online Application generated messages.	High
WIC Agency Logs information into AKWIC and Updates VENDMAST.xlsc	Manual Processing	Transmission of banking information specific to Vendor would automatically be transmitted to Key Bank. Notifications would be set for any automated process that fails.	High
WIC Searches USDA Online Database	Disjointed Information Tracking	Use of tool to be made secondary and only as a backup should WIC Agency not be able to obtain file download from SNAP.	Medium
WIC Agency Contacts SNAP to verify if Vendor is Approved	Interagency Communication	Work with SNAP to obtain a periodic file detailing SOA SNAP Approved Vendors. File would be loaded into application and feed Vendor Approval decisions.	Medium
WIC Agency Verifies Vendor is Eligible	Manual Processing	Application would automatically factor the various tangible criteria indicating if some information disqualified Vendor. Any official approval would require manual approval from WIC Agency.	Medium
WIC Agency Logs information into AKWIC and Updates VENDMAST.xlsc	Disjointed Information Tracking	Application would ensure that all information tracked separate in VENDMAST.xlsc would be accounted for in a single location. VENDMAST.xlsc would go away.	Medium

Table 4: Vendor Application Gap Analysis

1.2 Vendor Management Function Analysis: Vendor Maintenance

Vendor Maintenance covers a wide variety of tasks required in keeping vendors and vendor records up-to-date. Unlike Vendor Application, Vendor Maintenance does not have any clear or defined workflow; rather, it entails a set of periodic (scheduled or response driven) tasks or processes often independent of one another. Though it is credible to qualify other Vendor Management functions (i.e. Vendor Monitoring, Compliance Buys and MOVs) as being part of Vendor Maintenance, they will be covered in their own sections.

The diagram below demonstrates exactly what tasks / processes will be discussed as part of Vendor Maintenance.

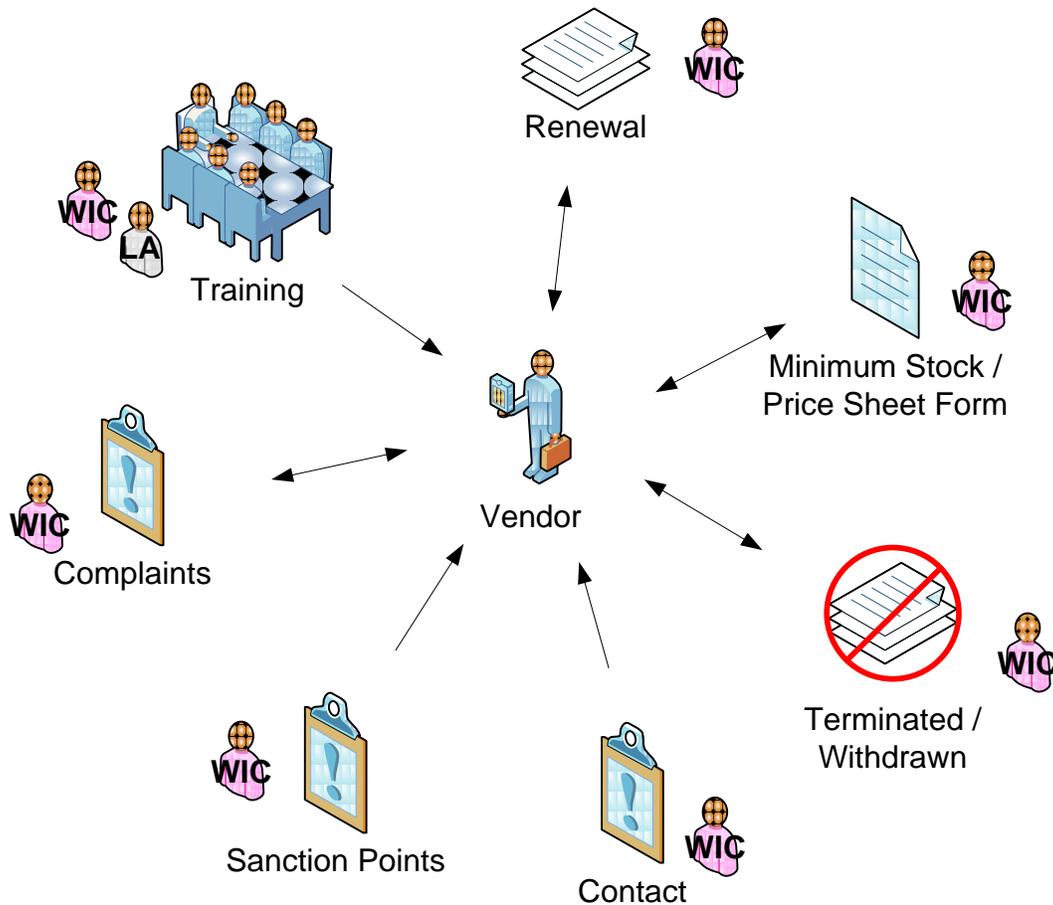


Diagram 1: Vendor Maintenance

Of the various tasks and processes identified in the above diagram, each come with its own set of challenges that will now be described in further detail in order of priority as established in the [Summary of Challenges](#) section of this document. Once the tasks have been described with corresponding challenges, the Gap Analysis chart will be presented summarizing current challenges vs. desired solutions.

1.2.1 Renewal

Every three years all previously approved vendors must re-apply and undergo renewal. The three year contractual period is the same for all vendors, meaning that at the end of the three year period, any vendor wishing to continue as part of the program must be renewed, regardless of when they might have first undergone the Application Process. Theoretically it's possible that a vendor might have to be renewed within a month of their initial approval. The renewal process is less involved in terms of processes than Vendor Application, since the only requirement to become renewed is completion and approval of the Minimum Stock / Price Sheet form and signing of new contract for the next three year term. Where renewal poses a significantly larger challenge to the WIC Agency than the Vendor Application process is in volume: the review and approval of the Minimum Stock / Price Sheet Form must be done for every vendor in one sweep, rather than processing single application for a new vendor.

As identified in the Summary of Challenges and Vendor Application portion, completion and review of the Minimum Stock / Price Sheet Form can create significant work. In-fact, it took roughly three and a half months with two people working full time and a third person working three-quarter time for three months to complete review of all the forms. Assuming a 37.5 hour work week, this equates to an estimated 1,280 hours spent on the Minimum Stock / Price Sheet Form.

It should be noted that the 2009 renewal period and the workload increase did result from the most significant changes and expansion to the food list in thirty years. With such a significant change to the food list, it was expected that the amount of work required for renewal would increase but certainly not to the level it did. *This period of rapid growth highlighted the limitations of using a manual process to manage the Minimum Stock / Price Sheet forms.*

The fundamental issue of manual process being eclipsed by the growth of the WIC program is shared between all five Vendor Management functions addressed in this Section (1.0)

1.2.2 Minimum Stock / Price Sheet Form

Not only are vendors required to submit the Minimum Stock / Price Sheet form during Vendor Application and Renewal, they must also submit the form semi-annually. Like Vendor Application and Renewal, none of the information is stored electronically; rather it is all manually processed and reviewed.

The amount of time and effort to process the forms in previous years was significant but with the expansion to food list and requirements in 2009, the challenges were only made worse with two staff members working three quarter time for six weeks and a third person working four months at three quarter time to complete. Again assuming 37.5 hour work week, this equates to an estimated 790 hours spent on the Minimum Stock / Price Sheet Form.

1.2.3 Terminated / Withdrawn Vendors

When discussing Vendor Maintenance, it is important to recognize that in terms of Vendor Maintenance, the reality is that a small percentage of vendors create a disproportionate amount of work for WIC's team. Consequently, it is desirable to consider termination of these vendors if the vendors themselves are not providing a tangible benefit to WIC participants in the area.

There are various ways in which a Vendor may be terminated. Below are some factors which may support the decision to terminate a vendor:

- Vendor exceeds the maximum allowed penalty points during the three year contract period.

- There is another vendor in the same community receiving the majority of WIC warrants¹.
- The Vendor is receiving ten warrants or less per month.
- Chronic problems or challenges exist with a particular vendor which can't be measured in Sanction Points.

The review of a vendor for possible termination must involve conclusive evidence to support the decision. Unfortunately, AKWIC is not capable of storing the data required to support such a review process. *As a result, various external tools and files have been created in order to maintain the required information, resulting in disjointed information tracking.*

Vendor termination is not the only way participation in WIC Program may end; vendors might decide they no longer want to participate in the program, in which case they notify the WIC Agency of their desire to withdraw. Anytime a vendor is to leave the program either voluntarily or involuntarily, the status of vendor in AKWIC must change and KeyBank must be notified so that warrants aren't redeemed from that particular vendor. *The way in which KeyBank is notified is through a file transfer, not unlike the one sent during Vendor Application. Once again, this is a manual process that relies on a WIC Programmer / Analyst manually transmitting the file. The continuation of this process on a manual level is a fiscal liability to the AKWIC Program as it grows.*

1.2.4 Contact

The WIC Agency communicates often with vendors. Reasons for communication may vary but often it will result from Vendor themselves having questions or experiencing problems. Other reasons for communication may be the WIC Agency has had their attention drawn to a vendor and clarification of a question / situation needs to be made.

Often the correspondence or contact made between the WIC Agency and the Vendor will be written, but in many circumstances communication occurs by telephone. Without audio-recording of calls it's important to the WIC Agency that the content of the conversation be logged and sequentially archived to provide complete contact histories for each vendor.

AKWIC has functionality in place to log contact; however, functionality in place is severely limited allowing for only a single record to be saved with no history or automatic date and user stamps. Further the amount of information that can be saved in AKWIC is limiting. As a result, per vendor, a Word document is maintained detailing all contact made. *Though the individual word files serve a valuable purpose, it is another example of disjointed information tracking.*

1.2.5 Sanction Points

Sanction points are a way of penalizing Vendors violating the terms of the contract to which they agreed. The amount of points assessed against a vendor is based on the type of violation, with more severe violations receiving a greater penalty. The most common violations are having foods on shelf with expired "sell by" dates, improper storage of foods requiring refrigeration and failing to have minimum stock of WIC Foods.

Sanction Points will continue to accumulate over the three year contract period. Once a new contract period begins all vendors have the slate wiped clean beginning again at zero.

Assessment of Sanction points usually occur following a monitoring visit or compliance buy but may occur other times such as when a vendor fails to submit a price sheet by deadline. When sanction points are to be assessed against a vendor they are logged in AKWIC. However, AKWIC lacks the flexibility to sum points relative to the contract period, the result being a total point accumulation for the existence of a vendor record. Though this can prove useful when identifying vendors that pose Vendor Maintenance challenges to the WIC Agency, there is no way to identify which

¹ An example of this would be where there are two vendors, one receiving 90% of WIC warrants and the other only 10%. Though this won't automatically disqualify the vendor, it is an indicator that the vendor receiving the small share has other issues.

points are for a given contract period, as a result, a separate Excel workbook (sanction.xlsx) must be maintained. *This results in WIC Agency staff having to maintain the same information in multiple locations resulting in disjointed information tracking.*

1.2.6 Complaints

Most complaints received as part of the WIC program are directed toward the participants themselves, but in rare occurrences complaints will be filed against vendors by the Local Agency (LA) or participants. Though this is a rare occurrence, it still requires the attention of WIC Agency Staff. Currently, when a complaint is made, a hard copy of the complaint is saved to a folder. In many ways the folder serves its purpose. However, when trying to support reasoning behind termination of certain vendors or identifying those vendors which are high risk and must undergo compliance buys, electronic storage would be of significant value. It would give the WIC agency team the ability to run reports and queries rapidly and accurately from a single source. *It is important to note that this is another example of disjointed information tracking since complaints themselves are only hard copies and reside outside of a single system.*

1.2.7 Training

There is no way to get around travel required for monitoring visits and compliance buys. However, the lack of interactive tools makes it difficult for Local Agencies and Vendors to train themselves on proper techniques and rules when participating in the WIC Program. *As a result, WIC Agency spends considerable time researching and looking into issues that arise, resulting in undesirable resource allocation.*

The following table summarizes the individual tasks with the corresponding challenge identified as detailed in sections 1.2.1-1.2.7.

Task	Challenge
Renewal	Manual Process
Minimum Stock / Price Sheet Form	Manual Process
Terminated / Withdrawn Vendors	Manual Process
Terminated / Withdrawn Vendors	Disjointed Information Tracking
Contact	Disjointed Information Tracking
Sanction Points	Disjointed Information Tracking
Complaints	Disjointed Information Tracking
Training	Resource Allocation

Table 5: Vendor Maintenance

Desired Solution: Vendor Maintenance

With a connection drawn between the tasks which were then correlated to the challenges, the last thing left to do is identify the desired solutions to individual challenges.

Process / Task	Current Challenge	Desired Solution	Priority
Renewal	Manual Processing	Online Application made available to vendors in which they could enter minimum stock and price sheet information.	High
Minimum Stock / Price Sheet Form	Manual Processing	Online Application made available to vendors in which they could enter minimum stock and price sheet information.	High

Process / Task	Current Challenge	Desired Solution	Priority
Terminated / Withdrawn Vendors	Manual Processing	Transmission of banking information specific to Vendor would automatically be transmitted to Key Bank. Notifications would be set for any automated process that fails.	High
Sanction Points	Disjointed Information Tracking	Utilize a single system which allows for reporting of sanction points not only for the vendors entire lifetime but also the current contract period.	High
Terminated / Withdrawn Vendors	Disjointed Information Tracking	Utilize a single system flexible enough to allow for track the various drivers which may influence the decision to terminate a vendor.	Medium
Complaints	Disjointed Information Tracking	Utilize a single system which acts as a central repository for all complaints filed. If complaints are in the form of letters, have ability to scan the letters and save to underlying database or have files referenced from within the system.	Low
Contact	Disjointed Information Tracking	Utilize a single system which doesn't limit the length of comments and the depth of history which can be kept.	Low
Training	Resource Allocation	Make available to Local Agencies and Vendors additional interactive training tools.	Low

Table 6: Vendor Maintenance Gap Analysis

1.3: Vendor Management Function Analysis: Vendor Monitoring

Similar to Vendor Application, Vendor Monitoring is a set workflow, mostly manual and initiated once a year. The purpose of Vendor Monitoring is to ensure that not only are Vendors living up to their contractual commitment but also to provide additional training and support to the Vendors. Given resources, it's not possible for the WIC Agency or the Local Agencies to monitor every vendor on an annual basis; however the WIC Agency will identify 50% of rural vendors (majority of vendors in Alaska are rural). In addition, the WIC Agency must ensure that 5% of high risk vendors undergo monitoring in a given year. The time frame for monitoring vendors is the FY which means that all vendors must be monitored by September 30th. It is not uncommon for the monitoring to be heavily weighted toward the end of the period resulting in increased workload and strain on WIC Agency staff.

Vendor Monitoring is a sequential workflow of processes. As a result, the best way to understand the processes involved is to understand the flow one process to the next and what decisions result in one process being performed over another. [Appendix B: Vendor Monitoring Flow Diagram](#) clearly demonstrates those processes which make up Vendor Monitoring. The flow diagram was useful in it allowed each process to be examined carefully and from those processes identify which had the most opportunity for improvement. One will also notice when reviewing the flow diagram that there are two distinct interested parties executing processes involved in Vendor Monitoring. Because of this distinction, two "Swim Lanes" were created to help identify where WIC Agency and Local Agency are responsible for a given process.

Many of the processes in Vendor Monitoring could be automated, however, to identify those processes with the most potential for improvement, two separate classifications were made: 1) Improvement Needed and 2) Improvement Potential.

Improvement Needed are those processes identified that have tight correlation to challenges identified as part of Vendor Management in the [Summary of Challenges](#) section and where it would be most beneficial for the WIC Agency to resolve.

Improvement Potential process are those identified as creating a challenge for the WIC Agency, but addressing the challenges is not necessarily a high priority at this time.

Improvement Needed

- Vendors Selected for Monitoring by WIC Agency and Transmitted to Local Agencies²
- WIC Agency Receives and Reviews Vendor Monitoring Report Form
- Results Logged in Sanction.xlsx
- Results Logged in AKWIC and VENDMAST.xlsx
- Assessment Letter Generated
- Compliant Letter Generated

Improvement Potential

- Local Agency submits Vendor Monitoring Report Form to WIC Agency

Having classified the various processes either as Improvement Needed or having Improvement Potential, a connection can be drawn to the direct challenges faced by the WIC Agency for the individual processes.

Improvement Needed

Process	Challenge
Vendors Selected for Monitoring by WIC Agency and Transmitted to Local Agencies	Report Availability and Export
WIC Agency Receives and Reviews Vendor Monitoring Report Form	Manual Processing
Results Logged in Sanction.xlsx	Disjointed Information Tracking
Results Logged in AKWIC and VENDMAST.xlsx	Disjointed Information Tracking
Assessment Letter Generated	Manual Processing
Compliant Letter Generated	Manual Processing

Table 7: Vendor Monitoring Improvement Needed

Improvement Potential

Process	Challenge
Local Agency Submits Vendor Monitoring Report Form to WIC Agency	Manual Processing

Table 8: Vendor Monitoring Improvement Potential

² A policy for determining vendors needs to be established.

Desired Solution: Vendor Monitoring

With a connection drawn between the processes identified as needing improvement or with potential for improvement and correlating them to challenges, the last thing left to do is identify a desired solution.

Process / Task	Current Challenge	Desired Solution	Priority
Results Logged in Sanction.xlsx	Disjointed Information Tracking	Utilize a single system which allows for reporting of sanction points not only for vendors entire lifetime but also the current contract period	High
Assessment Letter Generated	Manual Processing	Ability to automatically generate letters based on violations determined during Vendor Monitoring.	High
Compliant Letter Generated	Manual Processing	Ability to automatically generate letters.	High
Results Logged in AKWIC and VENDMAST.xlsx	Disjointed Information Tracking	Utilize a single system to ensure that all information tracked separate in VENDMAST.xlsx would be accounted for in a single location. VENDMAST.xlsx would go away.	Medium
Vendors Selected for Monitoring by WIC Agency and Transmitted to Local Agencies	Report Availability and Export	All information required for report stored in single application and with the ability to export to Excel, Word and PDF	Low
WIC Agency Receives and Reviews Vendor Monitoring Report Form	Manual Processing	Vendor Monitoring Report Form reviewed electronically, information stored electronically from form would help drive letters.	Low
Local Agency Submits Vendor Monitoring Report Form to Agency	Manual Processing	Local Agency would enter Vendor Monitoring Report Form electronically making findings electronically available to WIC Agency.	Low

Table 9: Vendor Monitoring Gap Analysis

1.4 Vendor Management Function Analysis: Vendor Compliance

Every year roughly 5% of active vendors are selected to undergo what is known as a Compliance Buy³. Selection of the

vendors to undergo Compliance Buys is a task performed once a year. Those vendors selected to undergo the Compliance Buy are usually high risk or have previously failed a Compliance Buy without later passing. Similar to Vendor Monitoring, this requires a Local Agency, WIC Agency or WIC Agency-sponsored representative to physically visit a vendor store. However, unlike a Vendor Monitoring visit, when performing a Compliance Buy the vendor is unaware that the shopper is recording the results from their visit.

Compliance Buys are useful as it is a true way to view a participants experience with a particular vendor at any given time without the Vendor being able to prepare or stock up on food items they might not regularly carry.

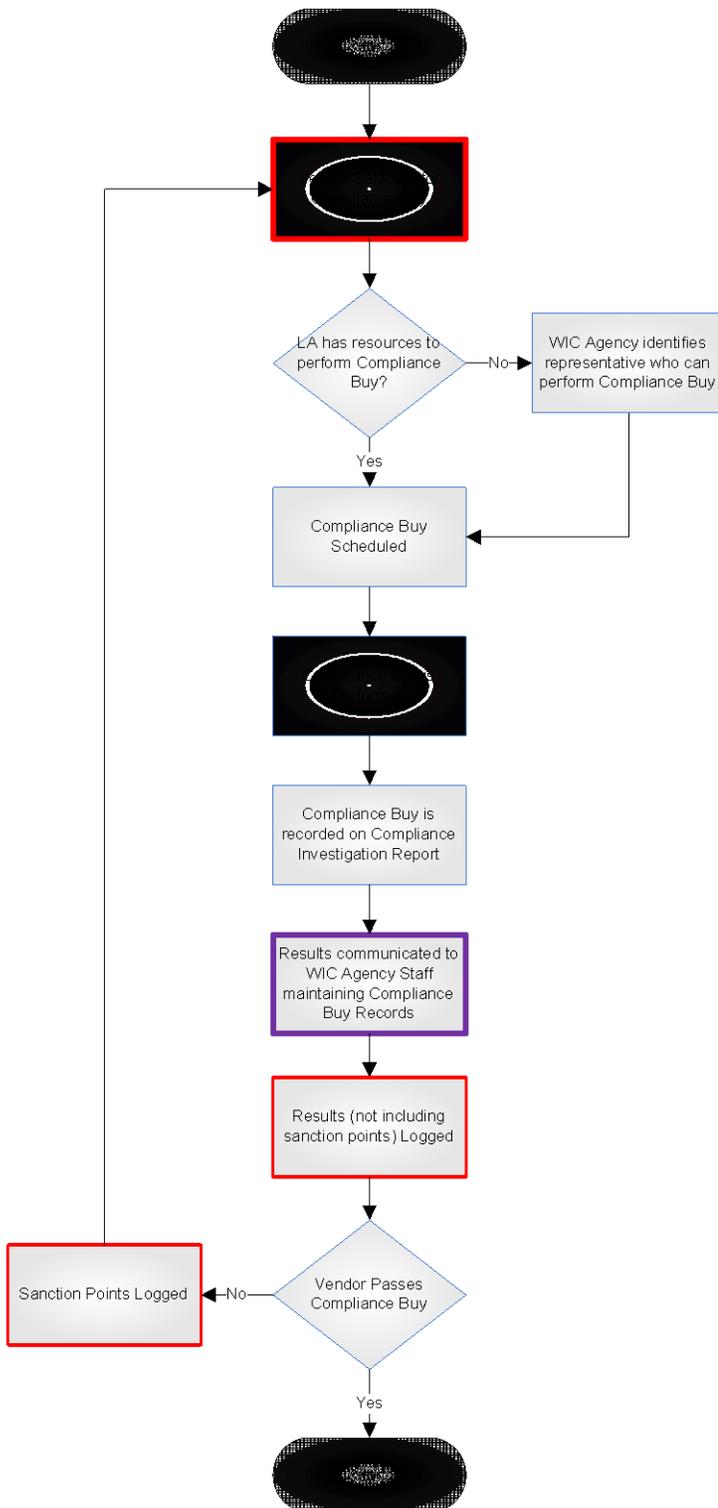
Not only do Compliance Buys provide a great benefit, outside of the cost of travel, they are relatively simple to administer. The below flow diagram represents the steps which are taken as part of a Compliance Buy.

Compliant Buys are relatively simple with almost a single path of processes, unlike Vendor Application and Vendor Monitoring which are much more complicated in their flow. Nevertheless, the flow diagram helps identify exactly which processes are performed that through automation and system augmentation work performed by WIC Agency staff could very much be simplified.

Using the same classifications of Improvement Needed and Improvement Potential, only four processes are drawn out for further evaluation.

Improvement Needed

- Vendor Selected for Compliance Buy.
- Results (not including sanction points) Logged.
- Sanction Points Logged.



³ Similar to vendor monitoring, a policy needs to be established to identify the top 5% of high risk vendors.

Improvement Potential

- Results Communicated to WIC Agency Staff maintaining Compliance Investigation Reports.
- Policies and procedures.

Improvement Needed

Process	Challenge
Vendor Selected for Compliance Buy	Report Availability and Export
Results (not including sanction points) Logged	Disjointed Information Tracking
Sanction Points Logged	Disjointed Information Tracking

Table 10: Vendor Compliance Improvement Needed

Improvement Potential

Process	Challenge
Results Communicated to WIC Agency Staff maintaining Compliance Investigation Reports	Manual Processing

Table 11: Vendor Compliance Improvement Potential

Desired Solution: Vendor Compliance

With a connection drawn between the processes identified as needing improvement or with potential for improvement and correlating them to challenges, the last thing left to do is identify a desired solution.

Process / Task	Current Challenge	Desired Solution	Priority
Sanction Points Logged	Disjointed Information Tracking	Utilize a single system which allows for reporting of sanction points not only for vendors entire lifetime but also the current contract period	High
Results (not including sanction points) Logged	Disjointed Information Tracking	Utilize a single system to ensure that all information tracked separate in VENDMAST.xlsx would be accounted for in a single location. VENDMAST.xlsx would go away	Medium
Vendor Selected for Compliance Buy	Report Availability and Export	All information required for report stored in single application and with the ability to export to Excel, Word and PDF	Low
Results Communicated to WIC Agency Staff maintaining Compliance Investigation Reports	Disjointed Information Tracking	Representative performing Compliance Buy would enter results from Compliance Buy electronically making findings electronically available to WIC Agency	Low

Table 12: Vendor Compliance Gap Analysis

1.5 Vendor Management Function Analysis: Mail Order Vendors

The Mail Order Vendor (MOV) is unique to the State of Alaska, providing participants in remote areas with the opportunity to obtain benefits of the WIC Program when there isn't a vendor easily accessible. The number of participants receiving benefits through the MOV varies in number but has been seen to range from less than a 1,000 to as many as 1,400. Given the current state of the economy and the WIC Agency's continued effort to qualify vendors where possible and remove when problematic, this number will fluctuate.

A single MOV is used; the current vendor at time of analysis is Fred Meyer. Together the WIC Agency and MOV communicate which food packages need to be issued, when they need to be issued and to whom they need to be issued. Though WIC Agency is happy with the current relationship, there exist possibilities to improve on the current system which will now be looked at in detail.

One of the most significant challenges with the MOV is the many disjointed functions which are carried out by a number of people. The diagram below details the various roles and responsibilities:

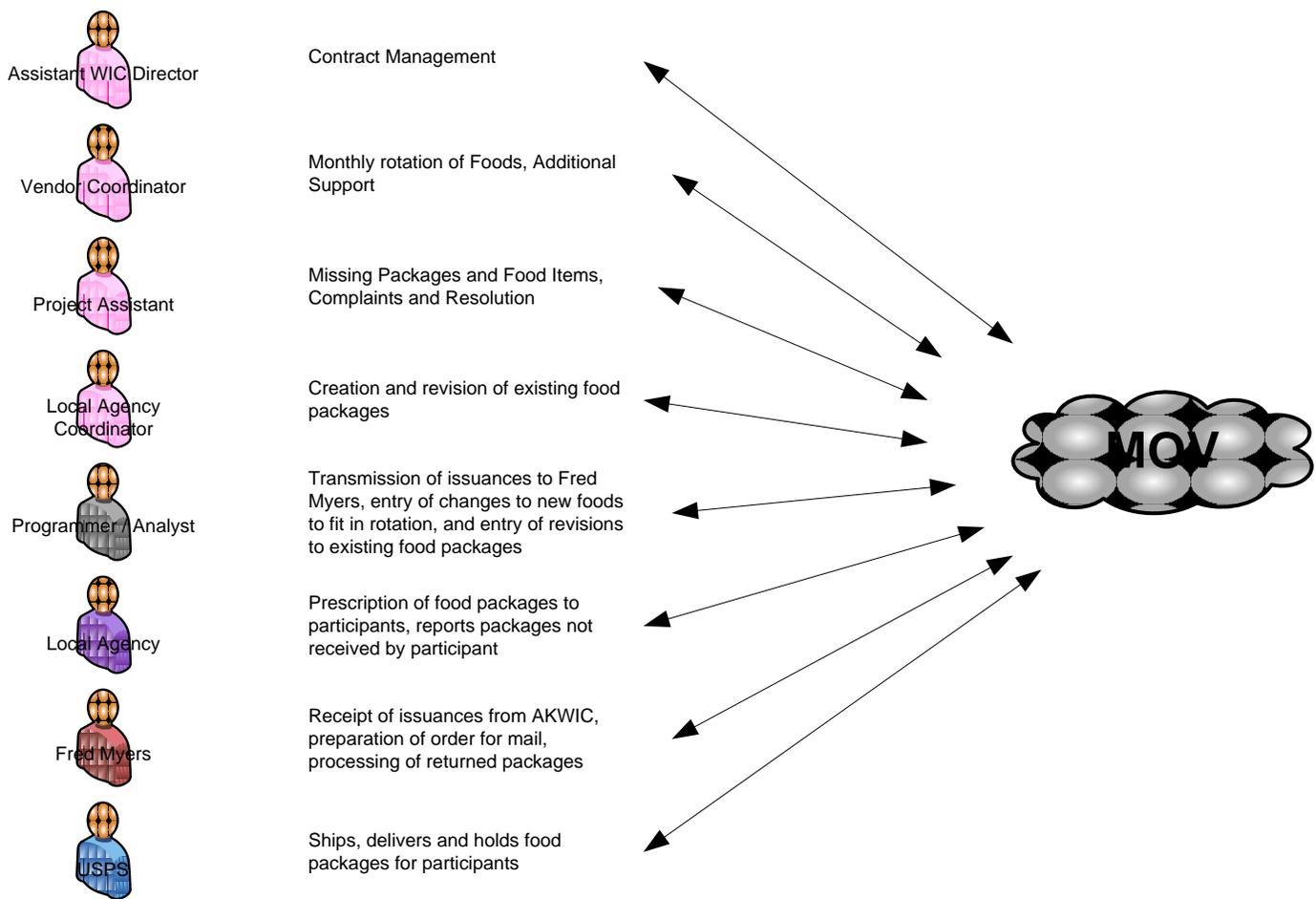


Diagram 2: Mail Order Vendor

As can be see there are roughly eight different roles (not including WIC Agency invoicing of MOV) with direct involvement in ensuring success of the MOV. Each role's contribution serves some function in the MOV process, but

what is contributed is often the result of inputs and actions from other related roles. Unfortunately, lines between roles and functions are rarely drawn clearly, resulting in a cloud of confusion.

An example of this was seen recently when the new food packages were determined. The below sequence of events occurred.

1. Local Agency Coordinator created the food package / rotation list and distributed to Local Agencies.
2. Programmer / Analyst took the food package / rotation list prepared by the Local Agency Coordinator and entered the information into AKWIC. Once complete, the food list was transmitted to Fred Meyer.
3. Local Agency prescribed specific food packages to participants based on nutritional needs. The prescription was based on the food package list prepared by the Local Agency Coordinator.
4. The food package number for specific prescription was entered into AKWIC by the Local Agency and the issuance was transmitted manually by the Programmer / Analyst to Fred Meyer.
5. The contents of the package to ship were based on the food package / rotation list as was entered by the Programmer / Analyst corresponding to the food package number entered by the Local Agency.
6. The package was shipped to clients by USPS.
7. The Project Assistant began to receive complaints that there were missing items in the package, which required the Project Assistant to investigate. The result of the investigation found that the items as entered by the Programmer / Analyst were not consistent with what was decided by and reported by the Local Agency Coordinator.

This situation is a perfect example of where a disjointed system without clear functional lines can take a relatively simple process, complicate it and cause problems and additional work for each of the different roles involved in the MOV process. In addition, and most importantly, the result was participants not having their needs fully met.

This is just one example where clouded lines can cause difficulties in the MOV process. To fully understand the potential for issues that can arise from disjointed information, each role will be examined in greater detail.

1.5.1 Assistant WIC Director

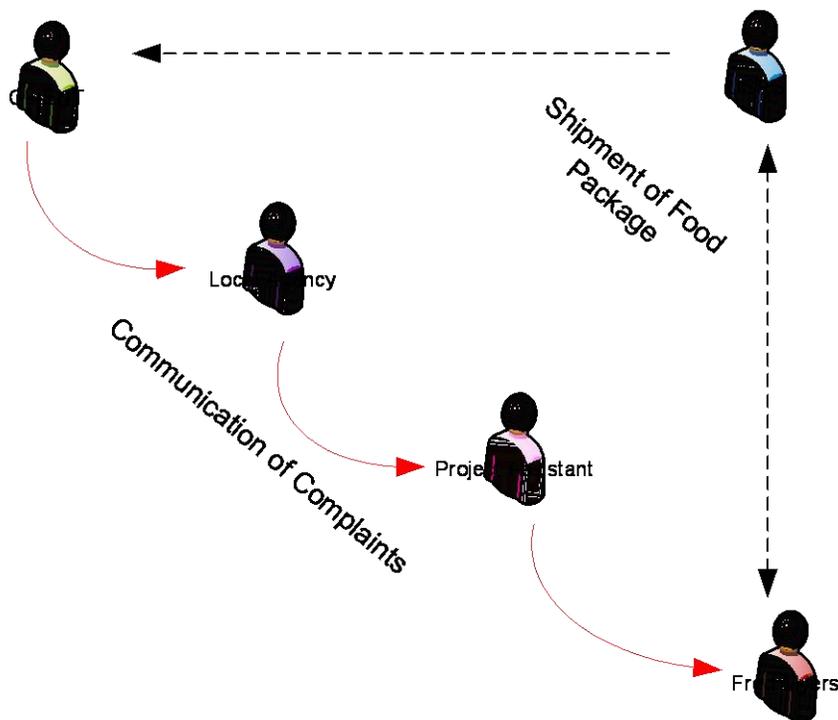
The Assistant WIC Director is largely involved at a higher level, dealing with contracts and ensuring that the MOV is fulfilling their end of the obligation. This role is ultimately responsible for the success of the MOV process so information should be readily available on problems and ways to address those problems from a strategic standpoint. This is not always possible when a process is disjointed the way MOV is, as often the resulting problem is propagated through more than a single role. *This causes challenges for the Assistant WIC Director by limiting their ability to focus on strategic ways to improve the process and relationship with the MOV.*

1.5.2 Vendor Coordinator

The Vendor Coordinator's role in the MOV process is to manage monthly rotation of foods ensuring that participants receive a variety of products in their packages (i.e. different flavors of cereal). The Vendor Coordinator works with the Programmer / Analyst to ensure that the proper rotations are entered for transmission to the MOV. *In addition, when issues arise and resources are strained in other roles, the Vendor Coordinator will step in and assist. This takes time away from other tasks that Vendor Coordinator performs, impeding that individual's ability to focus on the growth and improvement of the program.*

1.5.3 Project Assistant

The Project Assistant plays one of the primary roles in the MOV process, largely because of the disjointed information and manual processes in place today. It is the Project Assistant's responsibility to research missing packages and food items and process and resolve complaints. The diagram below details the communication of complaints and where the Project Assistant fits in:



As the diagram demonstrates, the communication channel in which complaints are filed involves the participation of five individuals. First the Client reports a problem with the package to the Local Agency through a form. The Local Agency then communicates that problem to the Project Assistant at the WIC Agency who then must communicate the problem to Fred Meyer.

Clearly an unnecessary number of roles are involved in the complaint process. Because AKWIC is unable to provide an interface in which the Local Agency can file the complaints which the MOV can review and address, the Project Assistant has to intervene and handle and research the complaints. *Often the complaints are*

transmitted by fax or mail which also slows down the ability to address the issues in a timely fashion. When the Project Assistant receives the complaint, they review it and then pass it along to the MOV to handle. There likely will always be a need for the Project Assistant to have some role in reviewing complaints and researching when necessary, but they should not be required to handle every complaint that comes in and then transmit the complaint along. Not only does this increase the probability of the complaint being misinterpreted, it slows down handling of complaints and takes up the Project Assistant's time. This limits them from performing other essential duties to improve the WIC Program.

1.5.4 Local Agency Coordinator

The Local Agency Coordinator is responsible for creating and revising existing food packages and communicating the food packages to interested parties. *This role is necessary; however, by creating one list that is later interpreted to create a second list (Programmer / Analyst populating AKWIC) the opportunity for human error in translating the list increases with same information having to be interpreted two places.*

1.5.5 Programmer / Analyst

The Programmer / Analyst is responsible for interpreting the Food Package list and entering that information into AKWIC. They are also responsible for entering the monthly rotation into AKWIC. *The Programmer / Analyst are also responsible for various other manual operations such as transmission of issuances to the MOV. Every single one of*

these functions increases the chances of information being lost in translation as well as taking away valuable time from the Programmer / Analyst to improve on and address other technical problems facing the WIC Agency.

1.5.6 Local Agency

Local agencies are responsible for prescribing food packages to participants and ensuring participants receive the packages prescribed to them. Information on the packages they prescribe is provided by the Local Agency Coordinator. Complaints received on missing, damaged or dated packages must also be processed by the Local Agency. *With the inability to log complaints electronically, the Local Agency must manually submit complaints to the WIC Agency. This manual process greatly increases the time it takes for a complaint to be resolved.*

1.5.7 Fred Meyer

Fred Meyer is the current MOV contracted by the WIC Agency. It is the responsibility of Fred Meyer to ensure that all prescribed packages are shipped to and received by the participant. To facilitate the job that Fred Meyer has to do, the WIC Agency has been provided with a computer as well as VPN credentials which provide the MOV the ability to access issuances with relevant information and transmit invoices back to WIC Agency. In addition to the system and application made available to Wells Fargo, the MOV keeps in constant contact with WIC Agency and USPS to ensure that packages are shipped on time and received by the intended recipient. *The availability of the AKWIC application helps simplify things between WIC Agency and the MOV, however, much of the regular communication of complaints and various other required tasks fall outside of the AKWIC application resulting in a wide range of manual processes and disjointed information tracking.*

1.5.8 USPS

The role of USPS in the WIC Program and the MOV specifically is significant. Shipment of actual packages and delivery is ultimately the responsibility of USPS. However, the interaction of USPS relative to other roles in the MOV process is limited outside of communication and assurance with the MOV.

Having discussed the various roles and responsibilities of those roles it becomes immediately clear that a lot of potential exists to improve the MOV process. A recurring issue constantly presented itself during the analysis, primarily disjointed information tracking and the various roles carrying out redundant tasks which could instead be carried out by a single role or individual.

Taking those issues identified and cross-referencing them against the [Summary of Challenges](#), the desired solution can be examined.

Desired Solution: Mail Order Vendors

With a connection drawn between the Roles which were then correlated to the challenges, the last thing left to do is identify a desired solution.

Process / Task	Current Challenge	Desired Solution	Priority
Entire MOV Process	Disjointed Information Tracking	Limit the many disjointed roles required to carry out functions to a basic few.	High
Single Source of Food Package items	Disjointed Information Tracking	Utilize a single system for data entry that drives not only lists Local Agency uses but also files transmitted to MOV.	High

Process / Task	Current Challenge	Desired Solution	Priority
Data Entry of Food Package Items	Manual Processing	System enhanced to allow for cleaner and more functional data entry of food items. Specifically auto-fill on related items of different quantity and constraints preventing entry of duplicate items.	High
Transmission of Complaints Client to MOV	Disjointed Information Tracking	Complaints automatically transmitted from Local Agency to MOV with WIC Agency having ability to review and report on existing complaints.	Medium
Invoice Auditing	Manual Processing	Automatic Auditing of Invoices based on provided pricing relative to MOV Submitted invoices	Low
Postage Auditing	No Process in Place	Automatic Auditing of postage detailed on invoices.	Low

Table 13: Mail order Vendor Gap Analysis

Section 2.0: Vendor Peer Groups

This section will focus on Vendor Peer Groups, their importance and purpose. Much of the challenges faced with Vendor Peer Groups are covered in the [Vendor Management](#) and [NTE Authorized Warrant](#) sections of this analysis. As a result, detail will be examined from a higher level.

Overview

In an effort to keep costs low to provide benefits to a greater number of participants, the United States Department of Agriculture (USDA) requires individual state WIC Agencies to organize vendors into Peer Groups based on certain criteria. Because each state is unique, the criterion used to determine peer groups is up to the state's discretion so long as the following two conditions are met⁴:

1. The state utilizes at least two approved criterion
2. One of the criteria is geographical based

Once the peer groups have been established, vendors within that group must conform to price averages within a certain number of standard deviations to the group as a whole, in what is known as the Not to Exceed (NTE) Amount⁵.

The closer vendors and their pricing per food instrument (FI)⁶ are in a group, the more capable the WIC Agency is in containing the variance in pricing from one vendor to another by only reimbursing vendors up to the NTE amount for that Peer Group and Food Item.

⁴ Though the USDA allows the individual State to determine their criteria for determining Peer Groups, Peer Group selection must still be approved and supported by analysis.

⁵ NTE Amounts and Standard Deviations will be discussed in much more detail in Section 4.0 of this analysis.

⁶ A FI can be thought of as a food package, which lists specific foods and their quantities.

After an extensive analysis (with multiple scenarios) performed in August of 2006⁷, the following eight peer groups were created in the State of Alaska:

Code	Peer Group
SC	Supercenter Stores (any location)
UL	Urban/Suburban Large Stores (4+ checkout stands)
SM	Urban/Suburban Small Stores (1-3 checkout stands)
GB	Gulf - Bristol Bay Region (all stores)
NB	Northern-Interior Bush Alaska (all stores)
WB	Western Bush Alaska (all stores)
PH	Pharmacies
MC	Military Commissaries

Table 14: Peer Groups

Conforming to USDA standards, the analysis factored both the geographic location as well as the size of the store. Size is determined based on the number of checkout stands. Because of Alaska’s unique nature, geographic factors considered were primarily based on differences in delivery methods and costs of delivery to the various regions.

Those vendors in rural areas were most often smaller, so no distinction on size was factored. In areas considered Urban/Suburban, a distinction was made based on the number of checkout stands.

In addition to rural, urban and suburban stores, it was determined there were three unique stores in which the size and location didn’t have a strong correlation with differences in prices:

- **Supercenter Stores** – Pricing is often competitive to begin with, and stores are typically located in larger populated areas with multiple delivery options.
- **Pharmacies** – Only required carrying certain items.
- **Military Commissaries** – Provide consistently low prices.

When a vendor agrees to participate in the WIC program, they acknowledge that they will not be reimbursed for food items sold at their store for more than the NTE amount. This allows the WIC program to save on every food purchase where the price a vendor may be charging is higher than similar stores.

Since 2006, the vendor Peer Groups have not changed, this is largely because of limited resources and ease of identifying a driver or series of drivers which would improve on the already established Peer Groups.

Summary of Challenges

Priority	Challenge	Issue	Description of Challenge
(2) Medium	Re-evaluation of Peer Groups	Limited Resources	The Alaska WIC Agency is fully aware that refinement of the current Peer Groups would add benefit to the program; limited resources prevent WIC from re-analyzing the groups to any great extent.

⁷ See Appendix C for full Analysis.

(2) Medium	Ready Access to Data	Report Availability	Limited number of reports providing data which could help drive Peer Group adjustments.
-----------------------	----------------------	---------------------	---

Table 15: Peer Group Summary of Challenges

Analysis

Based on requirements of the USDA, an analysis for peer groups was performed in August of 2006. At that time and even still today the ability to logically group vendors within peer groups provide a real challenge, most often because of an inability to identify specific drivers due to limited empirical data.

Given the limited data or ability to access data, the analysis effort which occurred in August 2006 should not be discounted. Alaska’s unique geographical nature and immense size create a significant challenge in identifying similarities between communities, whereas states of a smaller size can simply distinguish between urban and rural and find similar pricing⁸. Alaska doesn’t have this luxury considering two towns of similar size may be a thousand miles apart and accessible in a variety of different ways. As a result, the decision to base the geographical criterion not only on area but also method of shipment was by estimate, valid.

Even though original assumptions may have been valid at the time and are potentially still valid today, additional tools and opportunities have become available since the first analysis, most notably:

- Increased experience working with Vendor Peer Groups
- Addition of banking services provided by KeyBank

Because of the challenges of limited resources and report availability, the WIC Agency hasn’t had the ability to take advantage of the opportunities they now have. This inability to take advantage of these opportunities will continue to result in:

- Increased workload to WIC Agency in maintaining vendors who don’t properly fit within a specific Peer Group.
- Increased costs to the WIC Agency by having vendors who continually price significantly higher than other vendors of that same Peer Group (for additional detail on this subject see [Section 4.0: Not to Exceed \(NTE\) Authorized Warrants and Standard Deviation](#)).

Desired Solution

In order to improve on the current Vendor Peer Groups, the challenges preventing improvement to the existing Peer Groupings must first be addressed; however, to address these challenges facing other areas of vendor management as described in this document must first be addressed:

⁸ Montana has a similar number of vendors and is relatively close in the number of participants but maintains only three peer groups and is based on the size of community (i.e. rural vs. urban).

Process / Task	Current Challenge	Desired Solution	Priority
Improve Vendor Peer Groups	Limited Resources	Limit the manual functions carried out by WIC Agency during Vendor management, which ultimately will free up staff resources to focus more on Vendor Peer Group Assignment. In addition, ensure that whichever resource commits to project will be available start to finish.	High
Improve Vendor Peer Groups	Report Availability	Automate Export of KeyBank reports for those which already exist and work with KeyBank to create new reports which don't exist.	High
Improve Vendor Peer Groups	Report Availability	Check with how Hawaii and other states requiring costly shipping charges, to see how they organize their peer groups	Medium

Table 16: Peer Group Gap Analysis

Section 3.0: Banking Contractor Services

This section will focus on Banking Contractor Services, their importance and purpose. Similar to [Vendor Peer Groups](#) much of Banking Contractor Services, and challenges faced are discussed in the [Vendor Management](#) and [NTE Authorized Warrant](#) sections of this analysis. As a result, detail will be examined from a higher level.

Overview

Currently the WIC Agency is in contract with a third party bank (KeyBank) to assist with warrant redemption, tracking, monitoring and reporting. Through the relationship, KeyBank focuses on providing those services which a bank is better equipped to handle, allowing the WIC Agency to focus on providing benefits to participants and vendors.

A detailed list of the services provided by KeyBank can be found in [Appendix C](#). For the most part the WIC Agency is pleased by the services KeyBank provides, however, given the nature of the relationship (contract based), where reports are limited or difficult to run and extract, there is the concern that additional services may bring greater cost.

Summary of Challenges

Priority	Challenge	Issue	Description of Challenge
(2) Medium	Access to Reports	Report Availability	Reports needed which help Vendor Management do not exist; an example would be a report that allows users to view only those warrants 2 and 3 standard deviations of the median.
(2) Medium	Data Extract	Report Availability	When reports are available, extracting the data from those reports into a usable form in which analysis can be performed is not always easy.
(2) Medium	Import of Report Data	Manual Processing	Because it is not always easy to extract data from a report, users have to manually render the reports into a usable format.

Table 17: Banking Contractor Services Summary of Challenges

Analysis

KeyBank, as the contracted bank provides a valuable service to the SOA WIC Agency in managing the processing of WIC Warrants. Professionals at KeyBank have worked to process warrants with other State WIC Programs such as New York and Massachusetts since 1973. This experience has provided them with knowledge and tools that a single state would be challenged to gain on their own.

Though KeyBank can share experience, knowledge, and tools developed for warrant processing, as a contractor they will not always be intimately aware of many of the needs which may be specific to the SOA WIC Agency. The result of which are:

- Available reports not needed, essentially “canned” reports that other clients of KeyBank may find useful but don’t provide any real benefit to the SOA WIC Agency.
- Reports needed but unavailable, often result of business needs not fully documented at time of contract agreement, or more likely when some process internal to the SOA WIC Agency changes which could benefit from new reports.
- Reports rendered to a format unusable to internal systems within the WIC Agency. Given the disjointed systems in place and KeyBank not having any detail on SOA WIC Applications, it is difficult to develop reports which could easily be consumed in an automated fashion.

To summarize, the above challenges boil down to relevant and readily available data. Having discussions with WIC personnel and KeyBank managers, the relationship that exists between the two entities appears to be solid with flexibility and understanding from both sides. Together, addressing the lack of relevant and readily available data can be overcome. As a result, the question becomes what will be the additional cost of these services (if any) and will the benefits outweigh the costs.

Desired Solution

Because the three identified challenges are all related, the desired solution detailed in the Gap Analysis could address all the challenges in two steps:

Process / Task	Current Challenge	Desired Solution	Priority
Access to Reports	Report Availability	1.) Identify reports which are or could be useful. 2.) Once reports have been identified, where they don't exist, work with KeyBank to develop either the report itself or a data import.	Medium
Data Extract	Report Availability		Medium
Import of Report Data	Report Availability		Medium

Table 18: Banking Contractor Services Gap Analysis

Section 4.0: Not to Exceed (NTE) Authorized Warrants and Standard Deviation

The following section will provide a detailed look into NTE Authorized Warrants and Standard Deviation.

Overview

The primary purpose of the NTE is to reduce costs to the WIC Program by limiting the amount vendors can charge participants for food instruments (FI). An additional benefit of the NTE is it provides WIC Agency staff with a mechanism to monitor vendors by helping to identify inadvertent mistakes made against the lowest price / largest size policy⁹. The lowest price / largest size policy, is primarily directed toward milk and cheese products but can be applied to all products.

The NTE specifies the maximum amount which can be reimbursed when a WIC warrant is redeemed. The NTE is computed by KeyBank¹⁰ by averaging a two-week period, allowing for a maximum four standard deviations of the redeemed price of warrants relative to the Peer Group and FI. Because certain FI's may be less common, at least six warrants of that FI type must be redeemed over the two week period. When less than six are redeemed for that period, a vendor can be reimbursed to the full amount of the warrant which at the time of this analysis is \$200.00.

Weekly banking reports identifying NTE's are run and reviewed by WIC Agency staff, which with a trained eye often can recognize why the particular warrant exceeded the NTE amount or at the very least have an idea why. Typical reasons for exceeding the NTE amount are:

- Participants purchasing the more expensive UHT milk when regular milk should be available.
- Participants purchasing smaller sized items with a higher cost per ounce, when larger sized items at a lower price are available.
- Incorrect keying by the Vendor when checking out a participant.
- Vendor has priced items significantly higher than other members of its peer group.

When an NTE warrant is identified, the WIC Agency will often times follow-up with the Local Agency and/or Vendor to determine exactly what happened and inform them that one of the warrants redeemed exceeded the NTE amount. This proactive approach by the WIC Agency has resulted in a significant reduction to the number of NTE's reported on a weekly basis.

Though the numbers of NTEs have decreased because of the WIC Agency's proactive approach, many issues which may be occurring are not identified because the maximum allowed standard deviation of four is so high. Initial NTE calculations provided by KeyBank factored a lower allowable standard deviation, however, the amount of NTE's being reported were significant and too difficult to follow-up on given limited WIC Agency resources. The ability to decrease the allowable standard deviation will not only lower the costs to the WIC Program but it may provide an opportunity to improve on current Vendor Peer groups.

⁹ The lowest price / largest size policy is essentially a policy that pushes for purchasing items at the lowest cost per ounce.

¹⁰ KeyBank is discussed further in Section 3 of this analysis.

Summary of Challenges

Unlike sections 1-3 of this analysis where the challenges were itemized, this section will focus on only the primary challenge of NTEs which is the allowable standard deviation of four and discovery of ways in which to lower the NTE Amount. Other challenges of NTEs are covered in the Banking Contractor Services and Vendor Peer Group sections.

Analysis

An allowable standard deviation of four when determining the NTE amount opens up the opportunity for many issues to go unnoticed, ultimately increasing the costs to the WIC Agency and limiting the amount of participants who can benefit from the program. To illustrate the effect of decreasing the allowable standard deviation in the NTE calculation, this analysis will demonstrate hypothetical cost savings to the WIC Program, placing emphasis on why this is a significant challenge faced by the WIC Agency¹¹. In addition, discussion on ways to improve Vendor Peer Grouping will be made.

Calculation

Though a single calculation cannot be representative of every Peer Group to FI pairing, to illustrate the challenge of having an allowable four standard deviations and benefits of decreasing the number, a random example will be analyzed. The below table represents a subset of raw data over a two week period:

Peer Group	Food Instrument	Vendor number	Amount
25	00453	141	96.45
25	00453	141	96.45
25	00453	141	96.45
25	00453	321	95.5
25	00453	321	95.5
25	00453	332	95.25
25	00453	332	130.25
25	00453	334	96.45
25	00453	334	96.45
25	00453	612	95.42
25	00453	612	95.42
25	00453	1313	110.25
25	00453	141	96.45
25	00453	141	96.45
25	00453	141	96.45
25	00453	321	95.5
25	00453	321	95.5
25	00453	332	95.25
25	00453	332	95.25
25	00453	334	96.45
25	00453	334	96.45
25	00453	612	95.42
25	00453	612	95.42
25	00453	1313	110.25
25	00453	332	95.25
25	00453	332	95.25
25	00453	334	96.45
25	00453	334	96.45

¹¹ The sample used is of a very small scale, and was chosen to better describe the challenge. One should understand that the issue of having four standard deviations becomes much more apparent in terms of cost to the program when looking at more common larger redemptions by Peer Group and FI.

25	00453	612	95.42
25	00453	141	96.45
25	00453	141	96.45
25	00453	141	96.45
25	00453	321	95.5
25	00453	321	95.5
25	00453	332	95.25
25	00453	332	95.25
25	00453	334	96.45
25	00453	334	96.45
25	00453	612	95.42
25	00453	141	96.45
25	00453	141	96.45
25	00453	141	96.45
25	00453	321	95.5

Table 19: NTE Sample Data

From this table the following summary statistics can be determined:

Number of Redemptions: 43
Amount of Redemptions: \$4,187.52
NTE Average: \$97.38 (Amount of Redemptions / Number of Redemptions)

Building on these figures, the standard deviation is solved for utilizing the following formula:

$$\sigma = \sqrt{\frac{\sum (x_i - m)^2}{n-1}}$$

With standard deviation determined, the below figures are known:

Standard Deviation: 5.99
Allowable Standard Deviation: 4
NTE Amount: \$121.36

With standard deviation known, the normalized distribution becomes apparent:

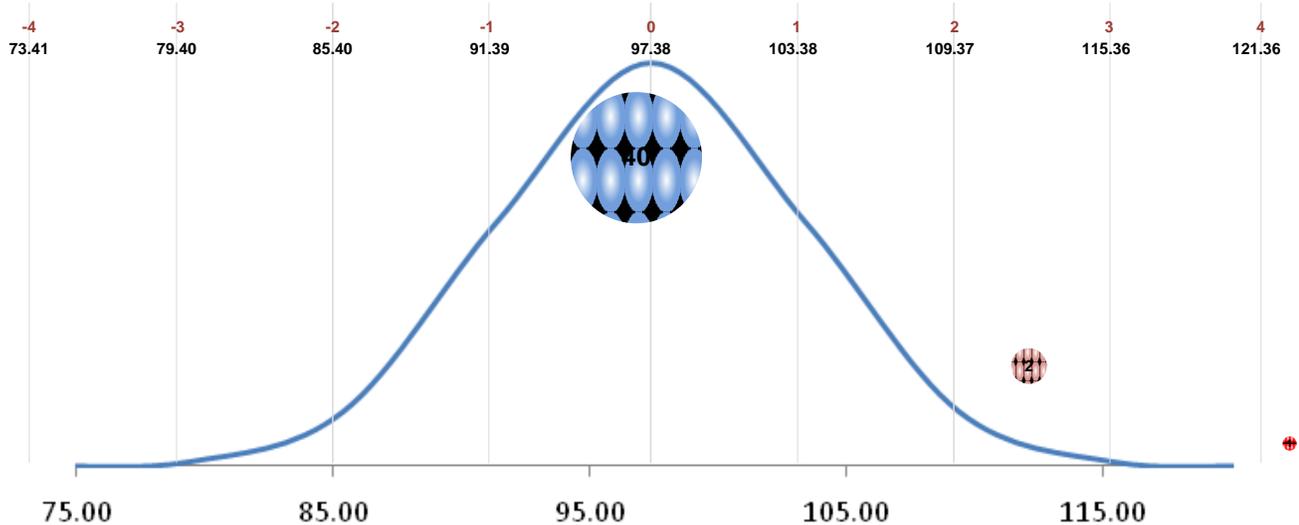


Diagram 3: Normal Distribution

Calculation Findings

It is clear in this chart that the vast majority of warrants fall within a single standard deviation of the average, in fact, 40 of the 43 from this random sample fall within just a couple points of the average. If we ignore these from the raw data table above we're left with the following redeemed warrants:

Peer Group	Food Instrument	Vendor number	Amount	StdDev. Out
25	00453	332	130.25	>4
25	00453	1313	110.25	3
25	00453	1313	110.25	3

Table 20: Outlier Warrants

When looking at the first warrant from Vendor 332, the amount of the redeemed warrant is \$32.87 greater than the average and \$8.89 greater than the NTE amount. This particular warrant would show up on the weekly banking reports which the WIC Agency, on review would immediately recognize an issue, especially considering this same vendor and FI had other warrants redeemed within a single standard deviation at an amount of \$95.25 over the same time period. The likely result of this amount overreaching the NTE amount probably **would not** be the result of overpriced food product.

If we look at the next two warrants redeemed at an amount of \$110.25, we'll notice the same FI and Vendor resulted in a warrant 3 standard deviations off the average. Since both warrants redeemed were for the same amount and there weren't any other warrants redeemed for this vendor and FI grouping, it can reasonably be assumed that the price of food for this vendor is overpriced relative to other vendors in the same Peer Group.

Having a vendor this far overpriced from the average increases the standard deviation for the vendor group and FI pairing. The effect of this is a greater NTE amount with an increased number of warrants which deviate away from the average that go unnoticed, ultimately increasing the costs to the program.

To illustrate the increase in costs for this hypothetical scenario for this particular vendor and FI the below chart assumes purchases and pricing remains consistent for a one year period:

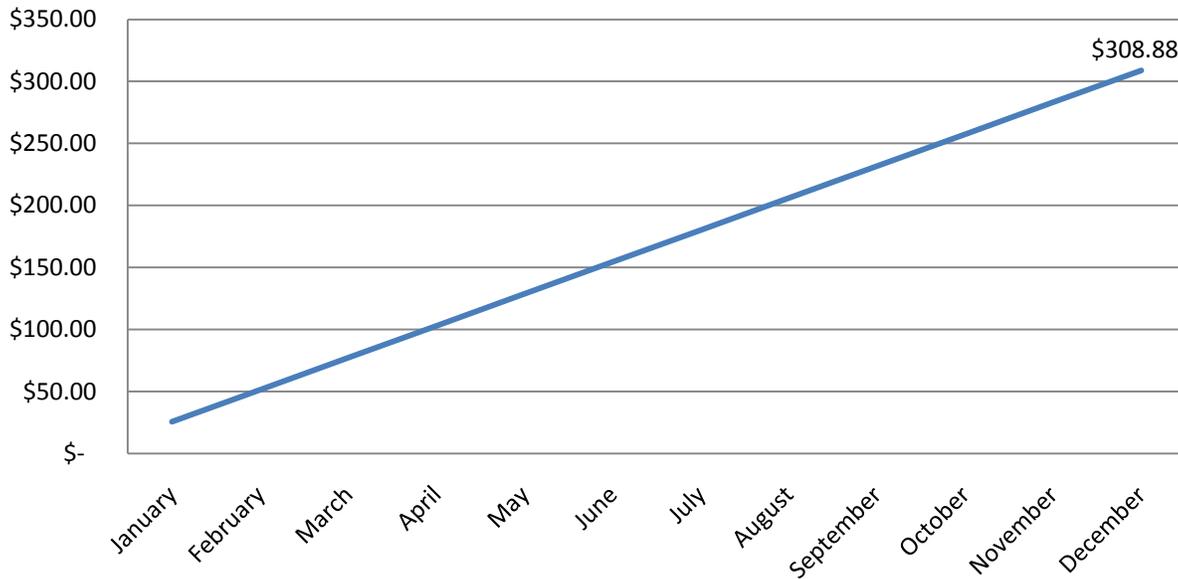


Diagram 4: Cost per Year

Unnoticed because the warrant amount falls within the NTE amount, this single instance over a year period would cost the WIC agency \$308.88 when compared to the average warrant amount. Though maybe not significant at first site, given the number of warrants redeemed per year the potential cost to the program becomes significant.

Opportunities for Improvement

On review of the above example, it becomes clear that four allowable standard deviations will mask a significant number of warrants exceeding the average. Either because the particular vendor is charging more for food products or some mistake was made while redeeming the warrant. Whichever the reason, having the ability to lower the allowable standard deviation will provide the WIC Agency with opportunities to:

- Lower costs and increase number of participants benefiting from program
- Improve on current Vendor Peer Groups by identifying vendors deviating away from the average. These vendors may share characteristics with other vendors, which would support an adjustment to existing groups.

Desired Solution

Before any efforts to decrease the NTE amounts can be made, identification and determination of warrants redeemed with 2-4 standard deviations off the average must be known. This likely can be done with relative ease either in-house or with the assistance of KeyBank.

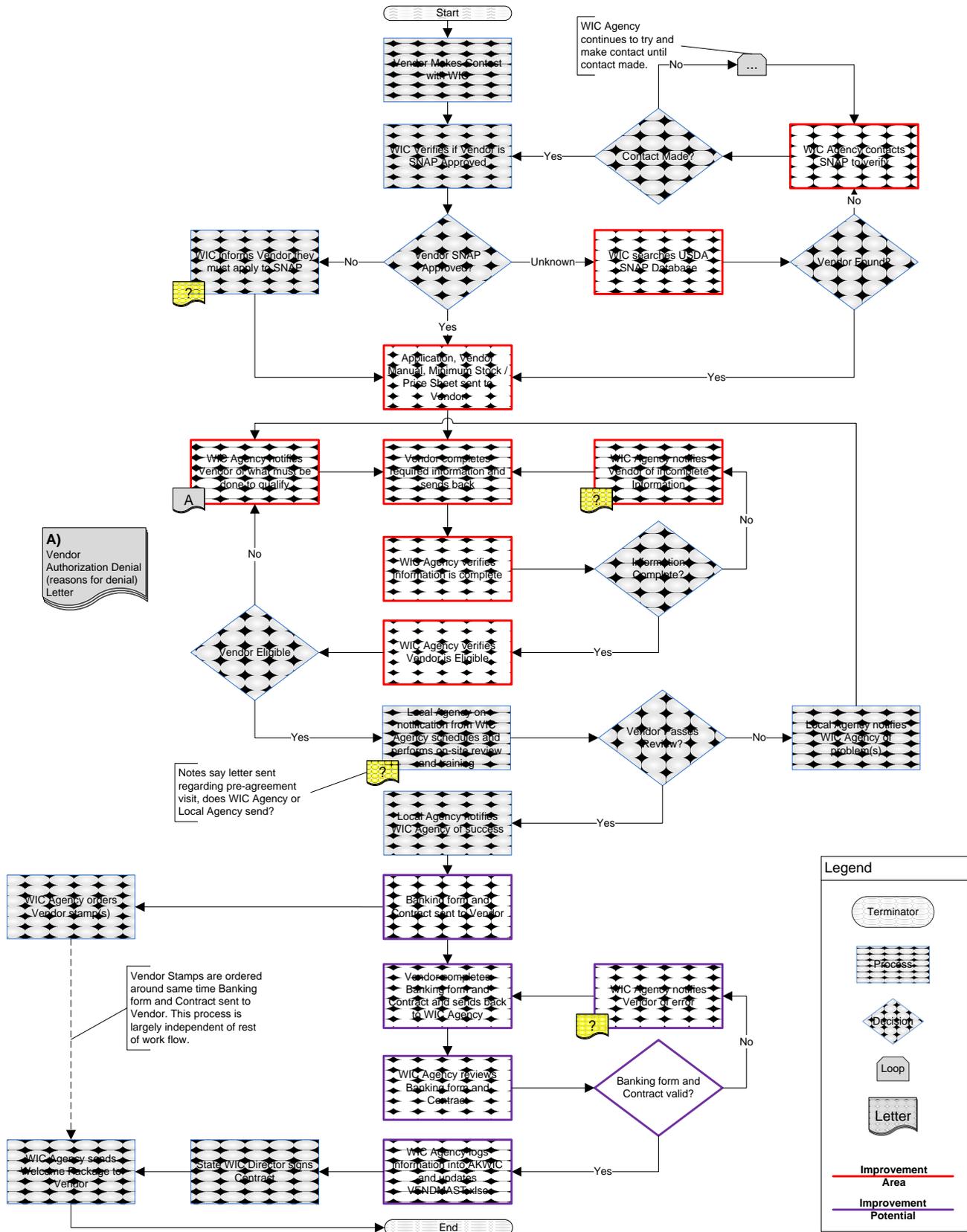
Process / Task	Current Challenge	Desired Solution	Priority
Lower NTE Amounts	Limited Resources and Insufficient Reports	Decrease the allowable standard deviation by building automated reports to identify warrants 2 to 4 standard deviations off the average. Two options for this: 1.) Develop a report which takes daily detail and perform same calculation as KeyBank, only identifying those warrants 2-4 standard deviations off the average. 2.) Work with KeyBank to modify existing process of reporting NTE's, only adjusting report to identify warrants 2-4 standard deviations off the average. Such a report would be run in parallel to actual NTE warrant report. KeyBank has indicated they believe this is possible.	High

Table 18: Banking Contractor Services Summary of Challenges

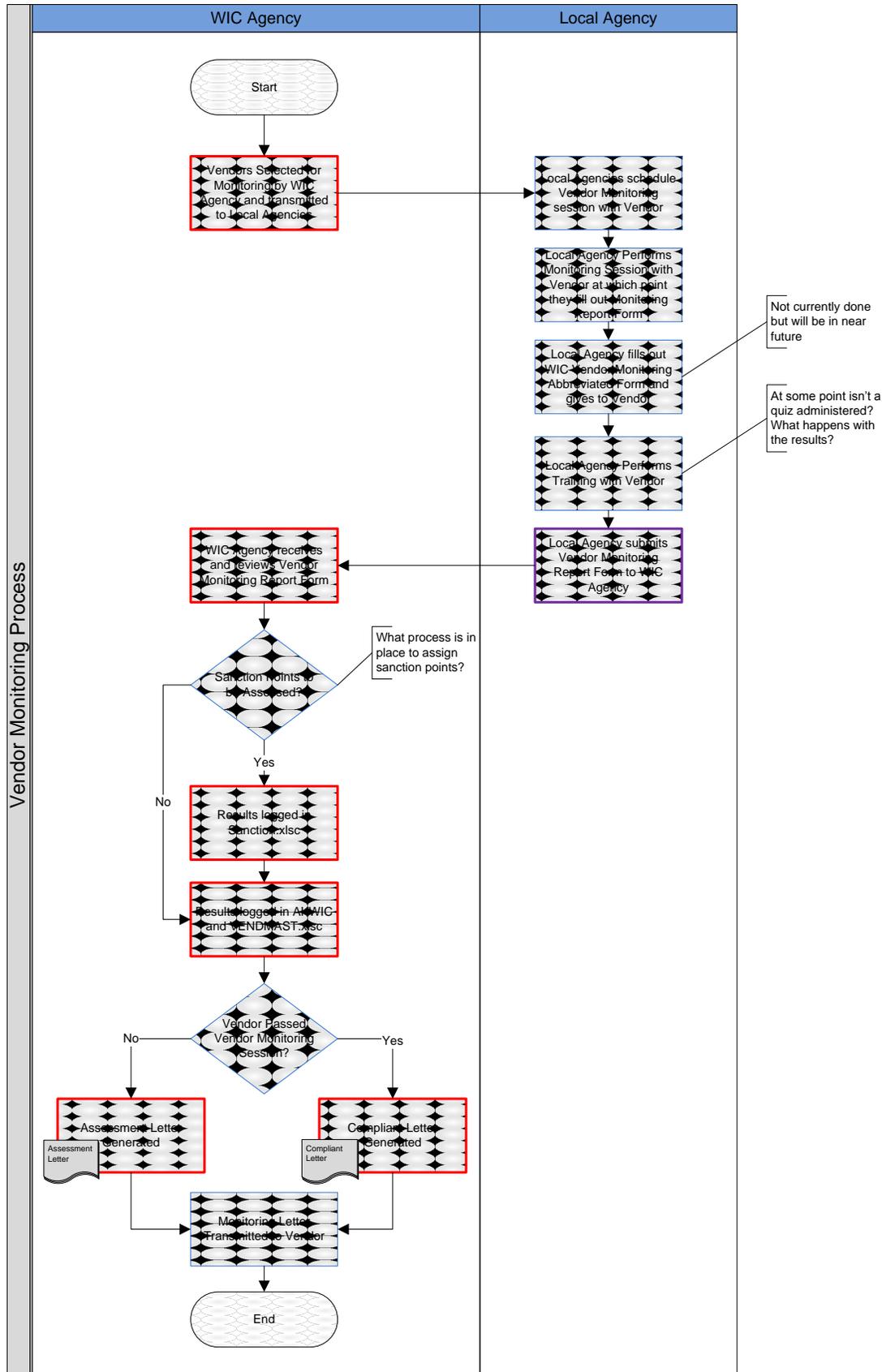
Summary

The purpose of the Gap Analysis has been to provide an evaluation of current functions and areas of vendor management, the challenges they face and desired solutions. In doing so, an understanding has been gained which will be utilized when providing a final summary report which will recommend to the WIC Agency ways in which challenges faced today can be improved on. By improving on challenges reducing the stress placed on current human resources and limiting the cost to the program can be achieved.

Appendix A: Vendor Application Flow Diagram



Appendix B: Vendor Monitoring Flow Diagram



Appendix C: Services Provided by KeyBank

BASIC RECONCILIATION MODULE:

- Zero-Balance Disbursement Account
- Full Account Reconciliation
- Key Total Treasury Web-based for viewing WIC daily/ weekly/and monthly reports and images.
 - Seven Year retention for WIC Reports and Images
- Daily Reports to help state monitor daily activity :
 - Paid (Redeemed) / Not Paid
 - Recap of FI's (Food Instruments) items and dollars of Paid and Not Paid with Reasons
 - Statement of Totals and Charges
 - Accumulated totals of Issue FI Records, Paid & Not Paid for current month and prior month
 - Deletions from Aged Outstanding
 - Detail records that have not been presented for payment (not used by participant) and are removed from the outstanding as Aged Records after 120 days(or determined by the state) from Not Good Before issue date.
 - Deletions from Previous Paid
 - FI's deleted for paid status due to misreads or paid for incorrect information
 - Compliance Buy
 - Detailed report of any FI flagged as a compliance buy item
- Daily Reports – Reporting for audit control of each FI being added or removed from master file:
 - Issue Edits Report – reports FI's that are attempted to being added to master and edits out because record is currently on the master file. Prevents duplicate issuance.
 - Stop Payment Placement and Removal
 - Details all FI's with stop payment placements or removal from stop payment status
 - Checks Presented Not Reconciled
 - Details all FI's presented and did not redeem due to various visual and automated edits.
 - Compliance Buy Report
 - Report any FI presented against a Compliance Buy record reported by the state. All items flagged as compliance buy will ignore all other edit conditions and report as a paid record.
 - Key will print IRD's (substitute checks) of daily Compliance Buy items and forward directly to the state for review.
 - Payments Reversed – Reports any FI that was reversed from a payment status after being reported paid with default vendor number of 222222. This condition only occurs when daily presentment was unable to be reviewed by WIC Operators due to late work from FRB or Depositing Bank, or system problems.

VENDOR VERIFICATION MODULE:

- Daily Automated Vendor Verification System
 - Received daily image files of WIC FI's from depositing banks and Federal Reserve Bank.
 - 100% Visual Review of each FI for various visual edits and assign authorized vendor number that is stamped on the face of each FI
 - Read Character Recognition of the Vendor Number using specific standard vendor stamp and black ink.
 - Visual Edits:
 - Missing Vendor Stamp / Number
 - Illegible Vendor Stamp / Number
 - Missing Signature

- Missing Amount
- Altered Date
- Altered Amount
- Altered Signature
- Invalid Transaction Date
- Other Alterations

AVAILABLE STANDARD REVIEW CRITERIA:

- Items returned to the first bank of deposit for the vendor to re-stamp with authorized legible vendor stamp and re-deposit items for second presentment.
 - Missing Vendor Stamp/Number – Visual Edit
 - Illegible Vendor Stamp/Number – Visual Edit
- Items returned to the first bank of deposit including stamp message of DO NOT REDEPOSIT – REFER TO MAKER – along with up to two of the following reasons but not limited to these reasons:
 - Invalid Vendor Stamp/Number – Visual and Auto Edit
 - Canceled Vendor Number – Auto Edit
 - Future Dated – Auto Edit
 - Stale Dated – Auto Edit
 - Altered Date – Visual Edit
 - Altered Signature – Visual Edit
 - Missing Signature – Visual Edit
 - Altered Dollar Amount – Visual Edit
 - Exceeds Maximum Amount or Excessive Dollar Amount – Auto Edit
 - Void FI – Auto Edit
 - Stop Payment – Auto Edit
 - Missing Dollar Amount – Visual Edit
 - Invalid Transaction Date – Visual Edit
- FI's not paid due to other conditions and automatically rejected to prevent redemption in error. Items are reviewed by WIC Operator for reason of non payment and will re-process the item next business day.
 - FI not on file or misread of FI number – Auto Edit
 - Duplicate Presentment – Auto Edit
 - Non WIC Items – Visual Edit
 - MICR discrepancy – Auto and Visual of Not Paid FI

MONTHLY REPORTS:

Monthly Reports are provided via Electronic Encrypted Email as attachment files (Excel)

- Summary Itemized Paid Report – FI Number, Vendor Number, Amount Paid, Date Paid
- Summary Itemized Not Paid Report –FI Number, Vendor Number, Reject Amount, Presented Date, Reason for Non Payment
- Monthly Bank Statement reflecting what was reported on Daily Reports:
 - Total Presentment Debit
 - Not Paid Credit
 - Reimbursement Payment Debit

- Manual Reimbursement Add-on Payments Debit
- Customer Deposit or Wire Transfer Credit
- Reimbursement ACH Returns
- Deletes from Current Month Credit
- Deletes from Prior Month Credit
- Any miscellaneous Debit and/or Credit Memos
- Monthly Recap of daily activity (items and dollars)
- Monthly Proof of report activity to bank statement postings
- Year to Date recap by monthly activity history
- Monthly Vendor Activity – Items and Dollars Processed, Redeemed, & Rejected
 - Vendor Totals by Vendor Number
 - Vendor Totals by Processed Amount
 - Vendor Totals by Average Processed Amount
- Monthly Vendor Reimbursement Detail by Vendor Number

TRANSMISSION – EXCHANGE OF DAILY FILES BETWEEN BANK AND STATE

- Issuance File Records
- Paid / Not Paid file with adjustment records (delete from previous paid, Aged Outstanding records, payment reversal records)
- Stop Payments Records
- Void Records
- Compliance Buy Records
- Reimbursement Payments Records

REIMBURSEMENT PROCESS

- Receive Reimbursement records for payment or non payment from state
- Vendors can mail FI's directly to bank requesting reimbursement.
 - Items are reviewed by WIC Operator and determine if FI qualifies for reimbursement
 - FI's are imaged and then flagged back to the state on daily PNP file for state to calculate reimbursement payment and send reimbursement payment record back to Key Bank.
- Reimbursement payments are processed at least once per week.
- The reimbursement FI is reported as either paid or not paid reimbursement record on the daily reports and on the PNP file to the state.
- An ACH credit transaction for all items for each vendor is created and sent to the vendors depositing back based on the vendors banking information provided by the state.
- A detailed Reimbursement Statement is sent directly to the vendors mailing address based on the information from the state acting as a notification of the ACH credit being posted to their bank account and the detail of FI's involved that the vendor sent requesting reimbursement..

MAXIMUM AMOUNT NOT TO EXCEED

Key Bank can determine the maximum not to exceed amount using one of the following methods:

- Not to Exceed amount sent by state on the issue record or

- Key can calculate the maximum amount not to exceed based on the peer group of the vendor number, the check type and the average accumulated for the check type including standard deviations set by the state. Key can reject FI's for Maximum Amount to Exceed and return the FI back to the vendor via the bank of first deposit and automatically create a reimbursement payment for either a calculated amount or for the maximum amount of the FI. Thus the vendor will not need to mail or request reimbursement