

Written Statement of the Honorable Charles R. Christopherson, Jr.

Chief Financial Officer

U.S. Department of Agriculture

Before the

Subcommittee on Federal Financial Management,

Government Information, Federal Services, and International Security

Committee on Homeland Security and Government Affairs

The U.S. Senate

January 31, 2008

Mr. Chairman, Ranking Member Coburn, and members of the Subcommittee, thank you for your invitation to appear before you today and provide the Subcommittee with the status of our progress at the United States Department of Agriculture (USDA) on the President's goal to eliminate improper payments and fulfill the requirements of the Improper Payments Information Act of 2002 (IPIA).

I am Charles Christopherson, Chief Financial Officer and Chief Information Officer at USDA. My role as Chief Financial Officer is to lead the Department's efforts in eliminating improper payments by coordinating policy, guidance, analysis, reporting, and process improvements. My responsibility is to ensure that all USDA programs or activities which are susceptible to significant improper payments are identified and monitored. The responsibility includes focusing the Department to quickly develop

strategies to implement corrective actions that mitigate inadequacies that cause the improper payments. USDA compliance with IPIA and the President's goal of eliminating improper payments is a top priority.

At USDA, we believe that eliminating improper payments is not only important but essential. The Department obligates about \$100 billion of taxpayer's money annually through more than 300 programs worldwide. Many of USDA's programs operate through an extensive network of Federal, State, and local cooperators. We have a complex tapestry of systems, many that date back to the 1970s and 1980s. These old systems often require our employees to complete manual reviews of qualifying paperwork for USDA programs. It is essential to educate our employees and our cooperative partners of the importance of making accurate payments to the correct recipients that are in compliance with program requirements and supported by appropriate documentation. Our goal is to instill this philosophy throughout the management, program, and administrative phases of the USDA work culture.

While we still face many challenges to eliminate improper payments, USDA has made progress in identifying programs susceptible to significant improper payments, measuring the amounts of improper payments and developing corrective actions to reduce improper payments. In FY 2006, we increased the number of programs measured and clarified the measurement and reporting criteria of audits. In addition, we integrated the testing of internal controls to prevent errors in qualifying paperwork and disbursements with our assessment of system of internal control under Office of Management and Budget

Circular A-123, Management's Responsibility for Internal Control Appendix A, Internal Control Over Financial Reporting. This ensures that we focus on collaborating across programmatic, financial, and other disciplines to evaluate our processes and holistically implement corrective actions.

In FY 2007, USDA achieved a major milestone. For the first time, we measured all of our programs that have a significant risk for improper payments. In summary, this includes 16 programs with total outlays of over \$72 billion. USDA's measurement of these programs estimated that the Department's FY 2007 improper payments totaled \$4.4 billion, which represents an error rate of 6.1 percent. This is a decrease from FY 2006 improper payments of \$4.6 billion, which represents an error rate of 7.0 percent.

I believe it is important to note that this reduction occurred even though two additional nutrition assistance programs were measured and reported for the first time in FY 2007. The USDA agency providing the greatest contribution to the FY 2007 decrease in improper payments was the Farm Service Agency (FSA). FSA's seven high risk programs showed significant improvement in FY 2007. FSA's FY 2007 estimated improper payments for all seven programs totaled \$563 million, which represents an error rate of 2.5 percent. This is a decrease from the FY 2006 estimated improper payments totaling \$2.9 billion, which represents an error rate of 11.2 percent.

FSA's progress is mostly attributable to addressing administrative process weaknesses that prevented FSA from determining if payments were proper in FY 2006. FSA

developed and implemented aggressive corrective action plans to improve the quality of documentation for program eligibility. Administrative checklists for each of the high risk program were provided to county offices to follow in processing applications. These checklists help ensure that all steps are followed during the processing of applications. Program requirements are being reviewed to ensure that they are effective and streamlined. Current and future corrective actions emphasize greater focus on education and providing modern systems to ensure all requirements are met before payments are issued. USDA has developed a plan to modernize the FSA program systems and is working with OMB to identify funding alternatives and strategies.

In FY 2007 USDA's Food and Nutrition Service (FNS) measured the National School Lunch Program (NSLP) and School Breakfast Program (SBP). The estimated amount of improper payments including under and overpayments for the NSLP were \$1.4 billion, which represents an error rate of 16.3 percent. The estimated amount of improper payments including under and overpayments for SBP were \$520 million, which represents an error rate of 24.9 percent. On an average school day, nearly 30 million children receive a program lunch and about 10 million children receive a program breakfast. Many of the improper payments stem from errors in the certification of eligibility by local school officials or meal service counts executed by local school food service personnel. Of the NSLP's error rate of 16.3 percent, 9.4 percent is attributable to certification error and 6.9 percent is attributable to counting/claiming error. Of the SBP's error rate of 24.9 percent error rate, 9.1 percent is attributable to certification error and 15.8 percent is attributable to counting/claiming error.

FNS has worked closely with OMB, Congress, the States, schools and advocacy partners for two decades to gain a better understanding of improper payments in the food assistance programs and to find ways to reduce them. The Child Nutrition and Women, Infants and Children Reauthorization Act of 2004 (CNR) enacted legislation to strengthen the certification process. Examples are requiring direct certification from food stamps or other nutrition programs; simplifying the certification process; requiring entire school year eligibility determinations; modifying, expanding and targeting verification requirements; and requiring additional State administrative review of school districts with higher error rates. FNS works closely with the states and is continuing efforts to meet all provision of the CNR.

While additional oversight corrects many errors, FNS is dedicated to being a proactive partner in assisting the schools and states through the corrective process. FNS has developed and requires annual training for schools on certification and accountability issues. FNS' Federal employees provide technical assistance to States and schools to help reduce administrative errors, improve program integrity, improve compliance program nutrition and menu planning standards, and increase accuracy of meal counts. Through this same type of proactive partnership, FNS has seen improvement in the Food Stamp Program error rate. The estimated improper payments for Food Stamps reported in FY 2007 including both under and overpayments totaled \$1,794 million, which represents an error rate of 5.99 percent. This figure marks the third straight year the accuracy rate of the total program has been greater than 94 percent. This improved

performance reflects effective partnerships with State administering agencies. Twenty-five States have a payment accuracy rate greater than 94 percent.

Although the Food Stamp Program and other domestic nutrition assistance programs have made progress in reducing improper payments, there will continue to be challenges in the future. In light of the need to make these programs easily accessible to people in special circumstances and settings, some improper payment risks are inherent due to the program design. USDA will continue to shape its management approach in light of the need to make services convenient and accessible to participants while meeting legislative requirements. State Governments and schools also bear direct responsibility for properly delivering these programs. I know that these State and school employees are highly dedicated to the families and children that they assist. We appreciate their dedication and hard work as they manage the proper distribution of taxpayer's funds. The Department must work with them to address improper payment problems through monitoring and technical assistance. The President's FY 2009 Budget for FNS requests additional funding for FNS to improve the measurement of improper payments made by the Child and Adult Care Food Program (CACFP). This effort will allow FNS to more accurately determine the error rate and to remediate root causes of improper payments.

At times, USDA agencies must work together to reduce improper payments. Natural Resources Conservation Service (NRCS), FSA, Rural Development, and Agricultural Marketing Service staffs meet monthly to discuss and resolve overlapping issues. Improving interagency communication and program integration has reduced improper

payments related to conservation easements and farm subsidies.

Over the past three years, NRCS has made progress in reducing improper payments. The improper payments error rate for the farm security programs they measured decreased from 1.55% in FY 2005 to 0.47% in FY 2007. Documentation, program compliance and human errors continue to be sources of improper payments. NRCS continues to develop and implement corrective actions to prevent errors and reduce improper payments. These actions include additional software control edits, stronger quality assurance testing, training of field staff, and other program internal controls.

As the results discussed previously indicate, USDA has made progress towards the goal of measuring and eliminating improper payments. The Office of the Chief Financial Officer has developed policy and issued detailed guidance for the risk assessment process. The risk assessment process requires: a description of the program, including purpose and basic eligibility requirements; definition of improper payments specific to the program; program vulnerabilities linked to improper payments; internal controls designed to offset the program vulnerabilities; internal controls testing; listing of significant reviews and audits; and final determination of risk level. During the risk assessment process transactions are statistically sampled to verify that the risk assessments are accurate.

We also continue to improve our processes and system. As an example the Department is currently in the midst of implementing a paperless invoice tracking and processing

system that will improve accuracy and efficiency thus reducing the risk of making improper payments. Prompt pay interest should be dramatically reduced when this system is implemented in FY 2008/2009.

Under the PMA initiative for eliminating improper payments, USDA has scored “Yellow” for status and “Green” for progress on the December 31, 2007 OMB scorecard. The Department’s overall goal is to achieve “Green” for status in FY 2008 and to maintain “Green” for status in FY 2009. We continue to take steps in recovery auditing. Using independent recovery audit contractors working on contingency, approximately 71% of the potentially recoverable improper payments in FY 2007 were recovered.

In closing, I would like to thank the subcommittee for the opportunity to share the status and progress of USDA on the important subject of eliminating improper payments. I would welcome any questions.