



United States Department of Agriculture
Office of Inspector General





Recovery Act – Rehabilitation of Flood Control Dams

Audit Report 10703-0001-At

What Were OIG's

Objectives

To determine whether NRCS implemented controls to ensure the effective use of Recovery Act funds in the Watershed Rehabilitation Program, and whether recommendations from a prior audit addressing the Watershed Rehabilitation Program were fully implemented.

What OIG Reviewed

Our review covered the 27 Recovery Act dam rehabilitation projects NRCS selected in 11 States. We conducted fieldwork at NRCS Headquarters in Washington, D.C., and judgmentally selected projects in West Virginia and Oklahoma for additional on-site reviews.

What OIG Recommends

We recommend that NRCS return \$1.4 million in expired funds to the Treasury. We also recommend that NRCS develop and implement guidance to ensure that the agency and project sponsors make complete and accurate information about projects and certifications transparent to the public. Finally, we recommended that NRCS address deficiencies with its dam inventory and cost monitoring tools that continue to exist.

OIG audited NRCS to determine if Recovery Act funds for the Watershed Rehabilitation Program were used to effectively rehabilitate aging flood control dams.

What OIG Found

As part of the American Recovery and Reinvestment Act of 2009 (Recovery Act), the Natural Resources Conservation Service (NRCS) selected 27 dam rehabilitation projects to receive \$44.8 million in funding through the Watershed Rehabilitation Program, which assists sponsoring local organizations in rehabilitating high-hazard, aging flood control dams. The Office of the Inspector General (OIG) determined that, while NRCS was generally effective in implementing controls to monitor Recovery Act funds, it did not take necessary steps to inform the Office of Management and Budget (OMB), the Department of Agriculture (USDA), or the public of key information regarding the projects, or to implement OIG's recommendations from a prior audit.

Specifically, NRCS did not accurately communicate to USDA and OMB the readiness of the selected projects and the impact of Recovery Act requirements on the program, which, by design, is not well suited to meet the accelerated timeframes and unique challenges posed by the Recovery Act. As a result, NRCS spent almost \$943,000 on 8 projects that did not meet Recovery Act goals and, therefore, could not be completed. Funds allocated to these projects had to be deobligated or allocated to other projects. NRCS also missed an opportunity to use \$1.4 million of Recovery Act funds to help the U.S. economy during the recession. Additionally, NRCS did not ensure that websites had complete or accurate information on watershed rehabilitation projects—such as project certifications and updated information about the 27 projects and their funding. Finally, NRCS has not fully corrected deficiencies with its dam inventory and cost monitoring tools that OIG identified in a prior audit. We have reached management decision on our five recommendations.



United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250



DATE: March 25, 2013

AUDIT
NUMBER: 10703-0001-At

TO: Jason Weller
Acting Chief
Natural Resources Conservation Service

ATTN: Lesia Reed
Deputy Chief
Strategic Planning and Accountability

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Recovery Act – Rehabilitation of Flood Control Dams

This reports presents the results of the subject audit. Your written response to the official draft report, dated March 13, 2013, is attached, with excerpts from your response and the Office of Inspector General's position incorporated in the relevant Finding and Recommendation sections of the report. Based on the agency's response to our official draft report, we accept management decisions for all recommendations in the report. No further response to this office is necessary.

Please follow your internal agency procedures for providing final action correspondence for these recommendations. In accordance with Departmental Regulation 1720-1, final action on the management decisions should be completed within 1 year of the date of the management decisions to preclude being listed in the Department's annual Agency Financial Report.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions.

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Background and Objectives

Background

As part of the *American Recovery and Reinvestment Act of 2009* (Recovery Act), the Department of Agriculture's (USDA) Natural Resources Conservation Service (NRCS) received \$50 million for Watershed Rehabilitation Program projects. Through this program, NRCS assists State and local governments, public utilities, and other sponsoring local organizations with rehabilitating their aging flood control dams. The program purpose is to rehabilitate dams to extend their service life and bring them into compliance with current safety and performance standards, or to decommission them, so they no longer pose a threat to life and property.¹ Watershed rehabilitation projects can take several years to complete.

NRCS has provided financial and technical assistance to sponsors for constructing over 11,000 flood control dams since the 1940s. In addition to preventing and controlling flooding, the dams can provide municipal and irrigation water supplies; help conserve water and habitats for fish and wildlife; and create recreational opportunities. Many of the dams were constructed in areas that were initially predominantly agricultural, but urban growth and residential development has resulted in people living in much closer proximity, sometimes within the dam's flood zone. NRCS presently classifies over 2,000 of these sponsor-owned dams as high-hazard because their deterioration could endanger the lives of people living nearby.

In March 2009, NRCS informed the Secretary of Agriculture that the agency selected 27 flood control dam projects to be funded through the Recovery Act. NRCS selected the 27 highest-risk projects that NRCS State offices determined could commence the soonest from among 81 requests for Recovery Act Watershed Rehabilitation Program funding. To be eligible for Recovery Act funds, the sponsor's dam needed to be classified high-hazard by NRCS. Sponsors were also required to pledge that they have the ability to obtain land rights and permits needed for the rehabilitation project and to provide funds or services to meet their 35 percent share of the cost for rehabilitation. Because the purpose of these projects was to stimulate the economy, they were expected to generate jobs and be completed in a timely fashion. The Recovery Act established a preference for "quick-start activities," with the goal of using at least 50 percent of the funds provided by the Act for projects that could be initiated within 120 days after the date of the enactment of the law.²

Congress' passage of the Recovery Act emphasized the need for accountability and transparency in expending Recovery Act funds. The Office of Management and Budget (OMB) requires that Federal agencies post on their websites listings of projects funded, cancelled, deferred, or accomplished under budget.³ Also, the Act requires State or local officials to certify that

¹ Rehabilitation is defined as "all work necessary to extend the service life of a dam and meet applicable safety and performance standards." This may include correcting damage from a catastrophic event, correcting deterioration of structural components deteriorating abnormally, or upgrading the dam to meet changed land use conditions or safety criteria (*NRCS National Watershed Manual* 505.30).

² Public Law 111-5, *American Recovery and Reinvestment Act of 2009*, title XVI, section 1602 (February 17, 2009).

³ OMB Frequently Asked Questions – *American Recovery and Reinvestment Act of 2009*, Clarification of OMB Memorandum M-10-14 Guidance (March 22, 2010).

infrastructure investments have been fully reviewed and vetted, and are an appropriate use of taxpayer dollars, before projects receive funding.⁴

Rehabilitating dams typically includes separate phases for assessment, planning, design, and construction. After NRCS assesses a dam and determines that it needs to be rehabilitated, it may, after the dam owner has submitted an application for Federal assistance, develop a rehabilitation plan for the work that needs to be accomplished. A rehabilitation plan will have detailed information for the dam owner to consider, such as the economic and environmental impacts of rehabilitating the dam, estimated rehabilitation costs under different alternatives, the owner's required contributions, and alternatives to rehabilitation, such as decommissioning the dam or removing downstream structures. An owner decides whether to rehabilitate its dam after a rehabilitation plan has been developed. If the owner decides to move forward with rehabilitation, then a project will enter the design phase, when detailed construction drawings and specifications are developed for the rehabilitation project.

The *National Engineering Manual* requires that NRCS maintain an inventory of dams, including all high-hazard dams.⁵ Every 2 years, NRCS provides a copy of its inventory of dams to the U.S. Army Corps of Engineers for publication in the *National Inventory of Dams*. A complete and accurate inventory of dams helps ensure NRCS prioritizes high hazard dams that may need rehabilitation.

In July 2009 we issued a report on our prior audit of the Watershed Rehabilitation Program. Our review of corrective action taken by NRCS on recommendations in our prior report is summarized in exhibit D.

Objectives

Our audit objectives were to determine whether (1) dams approved for rehabilitation met program eligibility and Recovery Act-related criteria, (2) effective monitoring and oversight activities were implemented to ensure the proper use of Recovery Act funds, and (3) recommendations were implemented from our prior audit of the Watershed Rehabilitation Program.

⁴ Public Law 111-5, *American Recovery and Reinvestment Act of 2009*, title XV, section 1511 (February 17, 2009).

⁵ *National Engineering Manual* 503.52 (NRCS, 3rd Edition, July 2010).

Section 1: Recovery Act Goals Under the Watershed Rehabilitation Program

Finding 1: Nature of Rehabilitation Project Implementation Not Conducive to Effectively Accomplishing Recovery Act Goals

Although NRCS' Recovery Act plan for the Watershed Rehabilitation Program stated that projects awarded funding were considered "shovel-ready" and the majority should begin construction in fiscal year 2009, none of the projects met these Recovery Act goals. Specifically, none of the 27 selected projects expended half of their funding within the first 120 days, two did not complete the dam rehabilitation with Recovery Act funds, and six were withdrawn prior to rehabilitation construction. This occurred because NRCS did not accurately communicate to the USDA and OMB the readiness of the selected projects and the impact of Recovery Act requirements on the program, which, by design, is not well-suited to meet the accelerated timeframes and unique challenges posed by the Recovery Act. As a result, NRCS spent almost \$943,000 on projects that could not be completed and missed an opportunity to use \$1.4 million of Recovery Act funds to help the U.S. economy during the recession.

As part of the Recovery Act's emphasis on timely implementation, NRCS was required to obligate its Recovery Act funding for the Watershed Rehabilitation Program by September 30, 2010.⁶ These funds were to go towards watershed rehabilitation projects "that [could] be fully funded and completed with the funds appropriated in this Act, and to activities that [could] commence promptly."⁷ The Act further stated infrastructure projects should be started and completed expeditiously, using 50 percent of available funds within 120 days of enactment of the Act,⁸ and all funds expended by September 30, 2013 (revised).

We found that NRCS' selected projects were unable to meet these Recovery Act timeframes. In March 2009, NRCS selected 27 flood control dam projects to receive Recovery Act funds. NRCS informed the Secretary of Agriculture in its implementation plan that the projects met all Recovery Act requirements; the plan further stated that the "majority" of projects could be started in fiscal year 2009. However, in August 2009, NRCS conducted a review of 12 of the 27 projects and reported that they were not shovel ready, raising concerns that they may not be timely completed. One hundred twenty days after the Recovery Act was enacted, NRCS State offices had only obligated approximately \$2.3 million of the total \$44.8 million awarded to the 27 projects—just 5 percent.

This occurred because the multi-phased nature of the Watershed Rehabilitation Program made it difficult to complete projects in the time constraints established by the Recovery Act. Rehabilitating dams includes four phases: assessment, planning, design, and construction. Each of these phases builds off the prior phase. If, for any reason, a dam is not able to pass through all

⁶ Public Law 111-5, *American Recovery and Reinvestment Act of 2009*, title XVI, section 1603 (February 17, 2009).

⁷ Public Law 111-5, *American Recovery and Reinvestment Act of 2009*, Division A, title I, subcategory Watershed Rehabilitation Program (February 17, 2009).

⁸ Public Law 111-5, *American Recovery and Reinvestment Act of 2009*, title XVI, section 1602 (February 17, 2009).

four phases, it must withdraw from the program. As a result, there is a significant risk that projects that are initially selected may not be completed if they are unable to meet the requirements prior to construction—such as sponsors obtaining land rights or providing 35 percent cost shares of the project. Finally, because the Watershed Rehabilitation Program is voluntary, sponsors can choose to opt out of the program at any time.

Given the uncertainties that projects face, the program was at substantial risk of not meeting the Recovery Act's accelerated timelines. We found that the NRCS State offices did prioritize projects that could, in the opinion of the State Conservationist, commence the soonest; however, NRCS' claim to the Department and OMB that the projects were shovel ready and that the majority could be started in fiscal year 2009 was not accurate.

Because NRCS did not have projects to select from that were truly shovel ready and able to meet Recovery Act goals, 8 of the 27 projects were required to be withdrawn from the program in the earlier phases.

- Two projects were withdrawn because other dams were at higher risk, or needed to be rehabilitated first. In one instance, after the planning phase, NRCS determined that the dam was no longer a high risk to the public and was therefore ineligible to receive Recovery Act funding. After the planning phase for another dam, for which NRCS had given \$16,015 in technical assistance, the State office determined that a dam upstream needed to be rehabilitated first.
- Additionally, four projects needed to be withdrawn from the program because sponsors could not obtain the necessary rights to build on the land involved in the rehabilitation project (referred to as "land rights"). While NRCS program policy requires that the sponsor certify that land rights can be obtained prior to obligation of funds for construction, sponsors do not know definitively what land is needed for a rehabilitation project until after the design stage.⁹ In four instances, the sponsors had obtained land rights for the property of the existing dam structure, but found out during the design stage that additional land was needed—to which they had not acquired the rights. By this point, NRCS had already given these projects a total of \$561,356 in technical and financial assistance, which could not be recovered. NRCS was able to reallocate remaining funds for three of the projects to other Recovery Act dam rehabilitation projects. However, the sponsor for the fourth project did not discover it needed additional land rights until February 2012, 16 months after the Recovery Act's deadline to obligate funds. Due to the delay, NRCS was not able to use these funds for other Recovery Act projects, but instead must return the \$1.4 million to the U.S. Treasury.¹⁰
- Another two projects—which received \$366,026 in Recovery Act funds—needed to withdraw from the program because sponsors were unable to meet their share of rehabilitation costs. While NRCS' policies require that the sponsor pledge at the time of application that it is able to cover a 35-percent cost share, it is not until the end of the

⁹ *National Watershed Program Manual* 504.2, 504.3, and 505.36 (Third Edition, December 2009).

¹⁰ The cutoff date for obligating Recovery Act funds was September 30, 2010. NRCS is required to return unused Recovery Act funds to the U.S. Treasury after the end of fiscal year 2015.

design phase that the NRCS State office determines the sponsor's actual cost share amount. In two instances, it was determined after the design phase that project costs would be higher than anticipated—and the two sponsors were unable to meet the required match.¹¹

In total, these 8 projects were awarded \$10.2 million in Recovery Act funding prior to opting out of the program. While NRCS was able to reallocate \$7.9 million from 7 projects to the remaining 19 Recovery Act dam rehabilitation projects, \$1.4 million exceeded the Recovery Act deadline to obligate funds for one project, and needs to be returned to the U.S. Treasury.

Although we concluded that NRCS was generally effective in reallocating funds provided by the Recovery Act, the Watershed Rehabilitation Program had an obligation to generate jobs and promote economic recovery. For this reason, the Recovery Act required funding to go to projects that could be fully funded and would complete all phases of the rehabilitation process. NRCS did not accurately communicate the difficulties in meeting Recovery Act timelines or assess earlier the selected projects' viability for timely completion. As a result, projects received funding that they might not have received otherwise, had the Department and OMB fully understood they did not fully meet the Recovery Act requirements.

Recommendation 1

Return \$1.4 million of un-liquidated Recovery Act funds to the Treasury.

Agency Response

In its March 13, 2013, response, NRCS stated that it will return the \$1.4 million of un-liquidated Recovery Act funds to the Treasury. NRCS' estimated completion date is September 30, 2013.

OIG Position

We accept management decision for this recommendation.

¹¹ We identified this issue in a prior audit, *Rehabilitation of Flood Control Dams* (10601-0001-At, July 2009).

Section 2: Monitoring and Oversight

Finding 2: NRCS Needs to Improve Transparency for Watershed Rehabilitation Program Recovery Act Projects

We found that NRCS did not meet the transparency requirements of the Recovery Act for any of the 27 Watershed Rehabilitation Program projects. Specifically, NRCS did not ensure that State and local government websites disclosed project certifications, as required, before it provided Recovery Act funds to the projects, and did not always maintain accurate information about the 27 projects and funding on the NRCS website, as required. This occurred because NRCS did not provide guidance to the local or State officials that sponsored dam rehabilitation projects regarding procedures to meet Recovery Act requirements, as management did not always interpret transparency requirements correctly. Management also did not provide specific instructions to NRCS State offices regarding the need to update project information on the NRCS website. As a result, the general public does not have access to comprehensive information regarding NRCS' use of nearly \$44.8 million in taxpayer funds.

OMB guidance states that agencies must use their websites to transparently communicate information about Recovery Act-funded projects to the public.¹² For infrastructure investment projects, such information specifically includes certifications that infrastructure investments made with Recovery Act dollars were fully vetted as required, and are an appropriate use of taxpayer dollars, as well as accurate program implementation plans or lists of approved Recovery Act projects.

Project Certifications Not Posted to Websites as Required

As part of the Recovery Act requirements, infrastructure investment project certifications must be made and posted on the project sponsor's website and linked to Recovery.gov for the sponsor to receive funding. Specifically, the Recovery Act states that the Governor, mayor, or other chief executive of the sponsoring organization (such as a State or local government) must certify that any infrastructure investment funded by the Recovery Act has received the full review and vetting required by law and that the chief executive accepts responsibility that the infrastructure investment is an appropriate use of taxpayer dollars.¹³ The certifications must include a description of the project, the estimated total cost, and funding amounts.

We found that none of the sponsors of the 27 projects had posted a certification on their relevant websites. We determined that NRCS, due to a misinterpretation of the requirement, did not instruct the sponsors to post the certifications to their websites. NRCS officials felt such certification was unnecessary, since the program requires that every sponsor be responsible for 35 percent of the project's rehabilitation cost. NRCS management deemed the sponsor's commitment as sufficient evidence that the Recovery Act project was an appropriate use of

¹² OMB Memorandum M-09-15, "Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009," April 3, 2009.

¹³ Public Law 111-5, *American Recovery and Reinvestment Act of 2009*, subtitle A, Transparency and Oversight Requirements, section 1511 (February 17, 2009).

taxpayer money and thus did not provide guidance to sponsors on how to certify. However, a sponsor's commitment to a project does not provide the public with a description of the project, its total cost, and the amount of taxpayer funds to be used on the project. Further, given the Recovery Act's emphasis on accountability, such certifications provide information to the public about the sponsor's review and vetting of the use of taxpayer dollars. We maintain that NRCS must ensure sponsors of watershed rehabilitation projects are adequately informed about their responsibility to publicly certify, and that the sponsors must provide information to the public about the benefits achieved through the use of funds.

NRCS Did Not Update Its Website to Disclose Significant Changes

Under the Recovery Act, agencies must provide information about program implementation plans on their websites and should make it clear to the public when they have made changes to their program implementation plans or lists of approved Recovery Act projects, including cancelled projects and reallocated funds.¹⁴

We found that NRCS took steps to implement these requirements by publishing initial information—including fact sheets about dam rehabilitation projects—on the NRCS website. However, NRCS did not fully implement the requirement. During our review, OIG noted that the NRCS website disclosed no information regarding 6 of the 27 projects. Further, as detailed in Finding 1, NRCS has had significant changes to its Recovery Act watershed projects and has not kept this information updated, including important changes in project progress, such as the withdrawal of 8 projects (see exhibit B for a list of withdrawn projects), as well as the net transfer of \$2.3 million in program funds among the 27 projects (see exhibit C for details).¹⁵

Although the national office informed State offices through email that fact sheets will be updated as projects progress, the national office did not provide specific instructions to State offices, such as a timeframe or periodic dates for reporting updated information. When we asked about instructions for updating the information, officials stated that there was turnover of management responsible to implement such instructions, and that they were unsure whether such instructions were developed. As a result, State offices had not implemented procedures to accomplish this. Management acknowledged that the information was not up-to-date.

Communication tools, such as websites, can provide valuable information to increase accountability and transparency in the expenditure of taxpayer dollars. Given that the Recovery Act requires transparency and accountability, it is important that both NRCS and the public have adequate and accurate tools to be informed on the progress of projects that NRCS currently plans to complete by May 2013.

¹⁴ OMB Frequently Asked Questions- *American Recovery and Reinvestment Act of 2009*, Clarification of OMB Memorandum M-10-14 Guidance (March 22, 2010).

¹⁵ Of the 22 watershed rehabilitation projects affected by redistributions of Recovery Act funds, award amounts for 15 of the projects were not reported accurately on the website www.recovery.gov, maintained by the Recovery Accountability and Transparency Board.

Recommendation 2

Issue guidance to State and local government sponsors for certifying on their websites whether Recovery Act funds provided to their projects are an appropriate use of taxpayer dollars.

Agency Response

In its March 13, 2013, response, NRCS stated that, with assistance and direction from its national Headquarters engineering staff, the Public Affairs Division will provide specific guidance for working with State and local government sponsors to draft public information for their websites on appropriate use of taxpayer dollars used for Recovery Act projects. The guidance will be provided to public affairs specialists and State leadership by April 1, 2013, and will request that they implement the guidance by May 1, 2013.

OIG Position

We accept management decision for this recommendation.

Recommendation 3

Implement and distribute to State offices specific instructions for maintaining current and accurate information on the NRCS national agency website regarding the status of each Recovery Act watershed rehabilitation project, including information about amounts originally awarded or reallocated to other projects, and about withdrawn projects.

Agency Response

NRCS stated that its Public Affairs Division will provide State offices specific guidance for updating Recovery Act watershed rehabilitation project information on national and State websites. This guidance will build on the initial rollout of Recovery Act communications materials, with a specific coordinated deadline to ensure project information is up-to-date. NRCS stated that its Public Affairs Division will also coordinate with Recovery Act project States directly to ensure information is updated, and will merge the updates into the national NRCS website. NRCS will complete these actions by April 1, 2013, and full implementation will be completed by May 1, 2013. NRCS will also include a process for ongoing regular updates.

OIG Position

We accept management decision for this recommendation.

Section 3: Recommendations from OIG's Prior Audit of the Watershed Rehabilitation Program

Finding 3: NRCS Needs to Complete Implementation of Recommendations from Prior Audit

NRCS has not fully corrected deficiencies with its dam inventory and assessment cost monitoring tools that OIG identified in a prior audit. Although NRCS stated in response to a prior audit of the Watershed Rehabilitation Program that it agreed to implement an accurate national dam inventory system, it has not yet fully implemented the Geospatial Information System (GIS) tool it determined it would use to update the inventory. NRCS did not prioritize sufficient funding and resources to develop and implement the tool until FY 2012. Also, although NRCS stated that it would develop its monitoring of dam assessment costs, we found instead that it maintains a spreadsheet of its assessment budget and not actual assessment costs and justifications for them. Due to these issues, NRCS does not have access to complete and accurate information needed to prioritize among dams for rehabilitation, and lacks the information needed to determine the justification for dam assessment costs that exceed the benchmark of \$20,000.

Agency management's responsibility for developing and maintaining effective internal controls to ensure that data are valid and complete applies to all information systems.¹⁶ As stated in the previous audit, to meet program objectives, the agency needs accurate information, including information about NRCS' inventory of dams and the costs of assessing them.

Since our 2009 audit, NRCS has taken some steps to improve the accuracy of its national dam inventory system by developing a GIS tool, called Geo Observer for Dams, and funding contract work to develop the tool. With the GIS tool not yet fully implemented, however, our audit identified that the national dam inventory system continues to not always contain updated information that reconciles with State databases. For example, the NRCS West Virginia State office reclassified 25 dams from significant hazard to high hazard in 2011.¹⁷ These re-categorizations were included in West Virginia's inventory, but not the NRCS national inventory database, which was between updates in its 2-year update cycle. Although NRCS had started to populate the GIS tool with updated data from the State offices, as of September 2010, NRCS has not ensured that the information has been continually updated while the GIS tool is in development. NRCS plans to fully implement the tool in all NRCS State offices by June 2013.

Until the inventory tool becomes available for routine use by NRCS national and State offices and information is routinely updated, we believe that NRCS will continue to

¹⁶ OMB Circular A-123, *Management's Responsibility for Internal Control*, December 21, 2004

¹⁷ A high hazard dam is defined as one whose failure is expected to cause loss of human life. If a significant hazard dam fails, no loss of human life is expected, but economic and environment losses are likely. *Federal Guidelines on Dam Safety: Hazard Potential Classification System for Dams* (Federal Emergency Management Agency, April 2004).

experience problems maintaining an accurate national inventory of dams. Especially given that such information is necessary in determining which dams should be rehabilitated, NRCS should ensure that it promptly completes and implements the inventory tool.

NRCS has also taken steps to improve its monitoring of dam assessments and now maintains a spreadsheet of dam assessments. NRCS determined that assessments should typically cost \$20,000 or less and that assessments costing over \$20,000 need justification. Yet, our audit identified that dam assessment costs continue to vary dramatically from \$20,000, and that State offices do not always document reasons for the cost variance. We determined that from 2009 to 2011, assessment costs per dam ranged from about \$7,900 to \$48,000 and that 511 out of 657 assessments exceeded the typical cost. Though NRCS was maintaining a spreadsheet of dam assessments, we determined that the spreadsheet did not contain justifications for why any of the dam assessments may have exceeded average costs. Specifically, although the spreadsheet tracked the budget amounts allocated to each State, it did not track the amount the States actually spent for each assessment.

After we discussed this matter with management, the NRCS national office issued a data call to State offices that had received funds for dam assessments. State offices entered relevant data, including the actual assessment costs incurred, into the spreadsheet and provided it to the national program manager to explain why dam assessments were costing more or less than the benchmark of \$20,000 per assessment. While this is a step in the right direction, NRCS needs to ensure that State offices routinely provide information to justify dam assessment costs, and assess whether such justifications are reasonable or if changes to the assessments need to be made. While the cost of assessing dams varies widely—depending upon factors such as the scope of the work and the size and complexity of the dam being assessed—implementing procedures for the national program manager to review such costs can ensure that NRCS apportions its dam assessment resources to maximal effect.

Recommendation 4

Implement the GIS tool to maintain accurate and complete data about the national dam inventory by June 2013.

Agency Response

In its March 13, 2013, response, NRCS stated that it has taken steps to improve the accuracy of its national dam inventory system by developing a GIS tool called GeoObserver for Dams. NRCS has funded contract work to develop the tool, and plans to fully implement or deploy the tool in all NRCS State offices by June 15, 2013.

OIG Position

We accept management decision for this recommendation.

Recommendation 5

Develop and implement effective internal controls to monitor justifications for dam assessment costs exceeding \$20,000, and follow-up with State offices on funds spent for dam assessments to ensure expenditures are warranted.

Agency Response

NRCS stated that it will implement controls to monitor justifications and ensure all expenditures for dam assessment reports, including those below and above the \$20,000 threshold, are warranted. The estimated completion date is September 30, 2013.

OIG Position

We accept management decision for this recommendation.

Scope and Methodology

Our audit covered NRCS' Watershed Rehabilitation Program Recovery Act funding for flood control dams. NRCS selected 27 projects in 11 States and awarded \$44.8 million¹⁸ in Recovery Act funding to assist sponsors with rehabilitating flood control dams. We performed our audit fieldwork from October 2010 through October 2012.

We conducted audit field work at NRCS Headquarters in Washington, D.C., and we made site visits to the States of Oklahoma and West Virginia for further review. We judgmentally selected Oklahoma because it was awarded over \$17 million in Recovery Act funds for 7 dam rehabilitation projects, the largest amount of funds awarded and number of projects among the 11 States receiving Recovery Act funds. We also judgmentally selected West Virginia because it was awarded over \$13 million in Recovery Act funding for the one rehabilitation project funded in the State, representing the second largest amount of funds awarded to any of the 11 States receiving Recovery Act funds and the largest amount of funds awarded for a single project. We also made a site visit to the dam rehabilitation project in West Virginia to observe the rehabilitation of the dam.

To accomplish our audit objectives, we reviewed NRCS' process for the Watershed Rehabilitation Program. We reviewed the Recovery Act and OMB guidance and NRCS' instructions, manuals, and regulations that prescribe policies and procedures for the program. We also reviewed NRCS' Recovery Act Implementation Plan and its Addendum covering the program.

We interviewed NRCS national and State office personnel to obtain information regarding project selection and the award, use, and monitoring of Recovery Act funds. At NRCS Headquarters, we reviewed the National Priority Ranking Listing, selection criteria, related records for selecting the 27 projects for Recovery Act funding, and financial records evidencing the use of the funds for selected projects and program administrative costs. At the Oklahoma and West Virginia State offices, we reviewed records supporting the selection and use of funds for the eight projects awarded Recovery Act funding.

Our audit coverage also included a follow-up of NRCS' implementation of 13 recommendations from our prior audit of the Watershed Rehabilitation Program.¹⁹ We interviewed NRCS Headquarters and Oklahoma and West Virginia State office personnel and reviewed records to support corrective actions taken by the agency.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions

¹⁸ NRCS initially awarded \$44.8 million of its Recovery Act funding to 27 projects. After 8 of 27 projects withdrew from the Watershed Rehabilitation Program, NRCS transferred residual Recovery Act funds, including funds held in reserve, to the remaining 19 projects, which amounted to \$47.16 million (see exhibit C).

¹⁹ The recommendations were made in *Rehabilitation of Flood Control Dams* (10601-0001-At, July 15, 2009).

based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We did not assess significant financial information or database systems used by NRCS in the Watershed Rehabilitation Program to determine their overall reliability in relation to our audit objectives. During audit fieldwork visits at the NRCS Oklahoma and West Virginia State offices, we traced project award amounts and dam risk data recorded in those systems to supporting documentation, finding no significant errors for the eight projects receiving Recovery Act funds in those States.

Abbreviations

ASDSO	Association of State Dam Safety Officials
EAP	Emergency Action Plan
GIS	Geospatial Information System
MOU	Memorandum of Understanding
NRCS	Natural Resources Conservation Service
OIG	Office of Inspector General
OMB	Office of Management and Budget
Recovery Act	American Recovery and Reinvestment Act of 2009
USDA.....	Department of Agriculture

Exhibit A: Summary of Monetary Results

Finding	Recommendation	Description	Amount	Category
1	1	De-obligation of Unused Recovery Funds for Dam Withdrawn from Rehabilitation Due to Lack of Land Rights	\$1,440,028	Funds to be Put to Better Use

The table above identifies the finding number, recommendation number, description of error, program dollar amount impacted, and OIG management tracking classification associated with the monetary results from the report's findings.

Exhibit B: Withdrawn Project Dams and Recovery Act Funding Expended Before Projects Withdrew from the Watershed Rehabilitation Program

The table below contains a list of eight project dams withdrawn from the Watershed Rehabilitation Program after being awarded Recovery Act funding, including the project name, location, Recovery funds spent as technical or financial assistance, and the reason for withdrawal.

Project (Dam) Name and State	Technical Assistance Spent	Financial Assistance Spent	Reason for Withdrawal
Plum Creek, TX	\$202,000	-0-	Need additional land rights
Hop Brook Dam, MA	\$92,815	-0-	Need additional land rights
Connewango No. 6, NY	\$26,402	-0-	Need additional land rights
Sandy Creek No 23, GA	\$210,055	\$30,084 ²⁰	Need additional land rights
Connewango No. 3, NY	\$40,412	-0-	Sponsor unable to provide cost share
Switzler Creek, KS	\$324,941	\$673 ²¹	Sponsor unable to provide cost share
Little Choconut, NY	\$16,015	-0-	Upstream dam should be rehabilitated first ²²
South River No. 10, GA	-0-	-0-	Dam hazard classification less than high risk
TOTALS	\$912,640	\$30,757	

²⁰ NRCS Georgia State office confirmed that \$30,084 in funds had been spent on pre-construction activities performed by a contractor. This amount represents the 65 percent Federal share on the construction contractor's final invoice in the amount of \$46,283.

²¹ The NRCS Kansas State Office recorded an expenditure of financial assistance funds for an historic resources assessment, in accordance with NRCS National Bulletin 390-9-1, *PDM – Use of Technical Assistance and Financial Assistance Funds for Cultural, Historic, and Environmental Resource Compliance Activities for the Natural Resources Conservation Service Programs* (10/27/08). NRCS obligated regular FY 2011 program funds to complete the rehabilitation after removing the project from the Recovery Act program.

²² NRCS estimated in the project design phase the sponsor would avoid up to \$2 million in costs to rehabilitate Little Choconut if an upstream dam is rehabilitated first.

Exhibit C: Watershed Rehabilitation Recovery Act Funding Awards and Fund Transfers

The table below contains a list of the 27 watershed rehabilitation projects awarded Recovery Act funding, the project location, original amount of funds awarded each project, and the net funds transferred to and from each project after its original funding award.

State	Project/Dam Name	Original Award Amount ²³	Net Funds Transferred To or From () Project After Original Award	Award Amount After Fund Transfers
Arkansas	Poteau River	\$1,495,000	\$(60,000)	\$1,435,000
Georgia	Sandy Creek No. 23 ²⁴	1,675,000	(1,440,028)	234,972
	South River No. 4	1,375,000	200,000	1,575,000
	South River No. 10 ²⁵	150,000	(150,000)	0
	Sandy Creek No. 15	1,975,000	0	1,975,000
	Marbury Creek	300,000	0	300,000
	Little Sandy & Trail	840,000	0	840,000
Kansas	Switzler ^{25, 26}	1,135,000	(809,333)	325,667
Massachusetts	George H Nichols	2,357,400	(719,000)	1,638,400
	Hop Brook ²⁵	2,007,000	(1,914,793)	92,207
Missouri	Lost Creek	350,000	(2,772)	347,228
Nebraska	Papio	1,170,000	16,800	1,186,800
New York	Conewango No.3 ²⁵	1,200,000	(1,117,027)	82,973
	Conewango No. 6 ²⁵	1,200,000	(1,200,000)	0
	Little Choconut ²⁵	344,200	(344,200)	0
Oklahoma	Upper Clear Boggy Creek No 33.	1,010,000	946,000	1,956,000
	Upper Clear Boggy Creek No. 34	960,000	893,000	1,853,000
	Upper Clear Boggy Creek No. 35	840,000	0	840,000

²³ The original award was approved by the Secretary of Agriculture on March 11, 2009.

²⁴ The project was withdrawn by its sponsor from the Watershed Rehabilitation Program after the construction contractor incurred pre-construction costs on the project. \$1,440,028 in unused funds from the original award amount should be returned to the U.S. Treasury.

²⁵ The project was withdrawn by its sponsor from the Watershed Rehabilitation Program prior to the start of rehabilitation construction work. Unused funds from the original award were subsequently transferred to other projects that had also received an original award of Recovery Act funds and had remained in the program.

²⁶ After the project was withdrawn from the rehabilitation program and its unused Recovery Act funds were transferred to another project, NRCS awarded non-Recovery funds to continue the project's rehabilitation.

State	Project/Dam Name	Original Award Amount ²³	Net Funds Transferred To or From () Project After Original Award	Award Amount After Fund Transfers
	Cottonwood Creek	3,610,000	226,000	3,836,000
	Sallisaw Creek	4,160,000	250,000	4,410,000
	Washita-Sugar Creek No. L-43	1,645,000	550,000	2,195,000
	Washita-Sugar Creek No. L-44	1,790,000	545,000	2,335,000
Texas	Calaveras Creek	2,373,000	340,000	2,713,000
	Plum Creek ^{25, 26}	2,452,000	(2,400,000)	52,000
Virginia	Pohick Creek Site 2	2,195,000	(117,137)	2,077,863
	Pohick Creek Site 3	2,160,000	(550,519)	1,609,481
West Virginia	Potomac-New Creek-Whites	4,050,000	9,202,154	13,252,154
TOTAL		\$44,818,600	\$2,344,145	\$47,162,745

Exhibit D: Corrective Action Taken by NRCS for Prior Audit Recommendations²⁷

The table below lists 13 audit recommendations from our July 2009 audit of the Watershed Rehabilitation Program (Audit 10601-0001-At, Rehabilitation of Flood Control Dams), and provides information about the corrective actions taken by the agency, and status of final action taken by the agency.

No.	Recommendation	Corrective Action Taken	Status of Final Action Taken
1	Develop an overall strategy for the dam rehabilitation program.	NRCS developed an overall strategy for the dam rehabilitation program. The strategy includes: a Memorandum of Understanding (MOU) between NRCS and the Association of State Dam Safety Officials (ASDSO); a revised annual funding priority methodology; the allocation of \$13.9 million to assess more than 600 dams nationwide; and MOUs between NRCS State offices and State dam safety agencies. These MOUs address enhanced coordination of assessments, annual funding priorities, guidance, and ASDSO-provided training opportunities for NRCS State offices, State dam safety agencies, and dam owners.	Final Action Implemented.
2	Report annually to Congress concerning any high hazard dams that are determined to need rehabilitation, but are not rehabilitated.	NRCS developed a decision support tool which displays the location of all high hazard dams with an overlay of socially and economically disadvantaged areas. Results are to be provided annually in reports to Congress illustrating where higher Federal cost share rates may be needed to equitably implement the rehabilitation program.	Final Action Implemented.
3	Develop policy and procedures to maintain State and national dam inventories, update routinely.	NRCS developed policy that NRCS inventory of dams must be current and accurate. However, the agency did not complete developing a GIS tool designed to allow States to continually update the NRCS Inventory of Dams. See Finding 3.	Additional work is needed to reach final action.
4	Revise the dam hazard classification	NRCS coordinated with the Interagency Committee on Dam Safety to develop a uniform Federal strategy for adoption of the	Final Action Implemented.

²⁷ Source: *Rehabilitation of Flood Control Dams* (10601-0001-At, July 15, 2009).

No.	Recommendation	Corrective Action Taken	Status of Final Action Taken
	definitions to correspond to those of the Federal Guidelines for Dam Safety.	guide standards. The committee considers NRCS' definitions to be equivalent to those in the Federal guidelines. NRCS revised terms in the National Engineering Manual (i.e., high, significant, and low hazard) to align with hazard classifications in the Federal guidelines.	
5	Update hazard classifications for all dams as changes in risk occur.	NRCS revised policy emphasizing the need to note land use changes during routine inspections and initiate a follow-up to assess the impact on hazard classification. NRCS assigned the State Conservationist the responsibility to keep all inventory fields current and to update the hazard classification of each dam in accordance with policy.	Final Action Implemented.
6	Develop plans to assess all high hazard dams nationwide, prior to assessing low or significant hazard dams.	NRCS identified and funded more than 600 high hazard dams for assessment nationwide in FY 2009. NRCS revised policy that dam assessment requests will be completed for all dams, beginning with dams classified as high hazard. Dams classified as significant or low hazard will be assessed after all high hazard dams have been assessed.	Final Action Implemented.
7	Revise the performance goals to more reasonably measure program accomplishments.	NRCS revised performance goals to more reasonably measure Watershed Rehabilitation Program accomplishments, and implemented them.	Final Action Implemented.
8	Clarify scope of work NRCS State offices should perform when assessing dams for rehabilitation.	NRCS revised policy to clarify scope of work requirements for dam assessments in the National Watershed Program Manual.	Final Action Implemented.
9	Monitor cost of dam assessments performed by NRCS State offices to ensure they are appropriate.	NRCS did not fully implement a control process to monitor program funds spent for dam assessments. See Finding 3.	Additional work is needed to reach final action.
10	Determine what actions can be taken if dam owners are unable to meet their obligation to	NRCS revised policy to address situations where a sponsor chooses not to implement any of the rehabilitation alternatives in its completed rehabilitation plan, and require the State Conservationist to notify a relevant State	Final Action Implemented.

No.	Recommendation	Corrective Action Taken	Status of Final Action Taken
	provide 35 percent of the funds needed for rehabilitation.	dam safety agency with enforcement authority to issue an order to rehabilitate or remove an unsafe structure.	
11	Develop plans to rehabilitate all high hazard dams nationwide that are in need of rehabilitation, prior to rehabilitating low or significant hazard dams.	NRCS revised policy to state that applications for rehabilitation planning and implementation will be ranked and funded annually based on condition of the dam and risk of loss of life should dam fail. Dams that have the highest risk of failure and threat to loss of life will have priority. The program's funding methodology is aligned to reflect that priority is given to high hazard dams.	Final Action Implemented.
12	Establish procedures for designating sensitive dam information in dam inventory databases, securing that information, and limiting access.	NRCS reviewed National Inventory of Dams policy concerning the sensitivity of data, and revised agency policy to indicate that some data in the NRCS inventory of dams are sensitive and intended for internal agency use with limited access.	Final Action Implemented.
13	Work with State regulatory agencies to require owners to develop emergency action plans for high hazard dams.	NRCS established MOUs between NRCS State offices and respective State dam safety agencies to require owners to develop emergency action plans for high hazard dams. NRCS provided sponsors with training, templates and technical assistance to assist them in developing the emergency action plans (EAP). NRCS supports the National Dam Safety Review Board in its strategic plan to have an EAP for all high hazard dams within 5 years.	Final Action Implemented.

**USDA'S
NATURAL RESOURCES CONSERVATION
SERVICE'S
RESPONSE TO AUDIT REPORT**



Natural Resources Conservation Service
P.O. Box 2890
Washington, D.C. 20013

Date: March 13, 2013

SUBJECT: SPA - Natural Resources Conservation Service (NRCS)
Response to the Office of Inspector General (OIG)
Audit Report 10703-0001-At American Recovery and Reinvestment Act
Watershed Rehabilitation Program

TO: Gil Harden
Assistant Inspector General for Audits
Office of Inspector General

File Code: 340

This memorandum is in response to OIG Official Draft Report #10703-0001-At, American Recovery and Reinvestment Act. Attached are the responses to Recommendation Numbers 1-5 for Management Decision. The responses address the actions taken and planned for each audit recommendation and their estimated completion dates.

NRCS appreciates the opportunity to provide comments.

If you have questions, please contact Leon Brooks, Director, Compliance Division, at (301) 504-2190, or by email at leon.brooks@wdc.usda.gov.

/s/

Jason A. Weller
Acting Chief

Attachment

cc:

Lesia A. Reed, Deputy Chief, Strategic Planning and Accountability, Beltsville, Maryland
C. Wayne Honeycutt, Deputy Chief, Science and Technology, Washington, D.C.
Noller Herbert, Director, Conservation Engineering Division, Washington, D.C.

Agency Responses for Audit Report 10703-0001-At, Natural Resources Conservation Service (NRCS), American Recovery and Reinvestment Act (ARRA) Watershed Rehabilitation Program

Finding 1: Nature of Rehabilitation Project Implementation Not Conducive to Effectively Accomplishing Recovery Act Goals

Recommendation 1

Return \$1.4 million of un-liquidated ARRA funds to the Treasury.

Agency Response:

NRCS will return the \$1.4 million of un-liquidated ARRA funds to the Treasury.

Estimated Completion Date: 09/30/2013

OIG Position: To be determined by OIG.

Finding 2: NRCS Needs To Improve Transparency for Watershed Rehabilitation Program Recovery Act Projects

Recommendation 2

Issue guidance to State and local government sponsors for certifying on their Web sites whether ARRA funds provided to their projects are an appropriate use of taxpayer dollars.

Agency Response:

With the assistance and direction from the National Headquarters (NHQ) engineering staff, the NRCS Public Affairs Division will provide specific guidance for working with State and local government sponsors to draft public information for their Web sites on appropriate use of taxpayer dollars used for ARRA projects. The guidance will be provided to Public Affairs Specialists and State leadership by the deadline, with requested implementation 1 month later (May 1, 2013).

Estimated Completion Date: April 1, 2013

OIG Position: To be determined by OIG.

Recommendation 3

Implement and distribute, to State offices, specific instructions for maintaining current and accurate information on the NRCS national agency Web site regarding the status of each ARRA watershed rehabilitation project, including information about amounts originally awarded or reallocated to other projects, and about withdrawn projects.

Agency Response:

The NRCS Public Affairs Division (PAD) will provide State offices specific guidance for updating ARRA watershed rehabilitation project information on the national and State Web sites. This guidance will build on initial rollout of ARRA communications materials, with a specific coordinated deadline to ensure project information is up-to-date. PAD will coordinate with ARRA project States directly to ensure information is updated, and will merge the updates into the national NRCS Web site. Full implementation will be completed 1 month after the completion date (May 1, 2013). A process for ongoing regular updates will be included.

Estimated Completion Date: April 1, 2013

OIG Position: To be determined by OIG.

Finding 3: NRCS Needs to Complete Implementation of Recommendations from Prior Audit

Recommendation 4

Implement the Geographic Information System (GIS) tool to maintain accurate and complete data about the national dam inventory by June 2013.

Agency Response:

NRCS has taken steps to improve the accuracy of its national dam inventory system by developing a GIS tool called *GeoObserver for Dams* and has funded contract work to develop the tool. NRCS plans to fully implement or deploy the tool in all NRCS State offices by June 15, 2013.

Estimated Completion Date: June 14, 2013

OIG Position: To be determined by OIG.

Recommendation 5

Develop and implement effective internal controls to monitor justifications for dam assessment costs exceeding \$20,000, and follow up with State offices on funds spent for dam assessments to ensure expenditures are warranted.

Agency Response:

NRCS will implement controls to monitor justifications and ensure all expenditures for dam assessment reports, including those below and above the \$20,000 threshold identified by OIG, are warranted.

Estimated Completion Date: 09/30/2013

OIG Position: To be determined by OIG.

Information copies of this report have been distributed to:

Chief, Natural Resources Conservation Service
ATTN: Agency Liaison Officer

Government Accountability Office

Office of Management and Budget

Office of the Chief Financial Officer
ATTN: Director, Planning and Accountability Division

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