





OFFICE OF INSPECTOR GENERAL

United States Department of Agriculture



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TO: Terry Cosby
Chief
Natural Resources and Conservation Service

ATTN: Gary Weishaar
Branch Chief
External Audits and Investigations Division

FROM: Yaris Rivera Rojas
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SUBJECT: Prior OIG Audits Relevant to Natural Resource Conservation Service's Inflation Reduction Act Funding

According to the U.S. Department of Agriculture (USDA) Office of Budget and Program Analysis, the Inflation Reduction Act (IRA), Pub. L. No. 117-169, signed on August 16, 2022, provided more than \$43 billion to USDA. Of this amount, IRA provided more than \$19 billion¹ for conservation programs that provide financial and technical assistance to private landowners to voluntarily implement conservation practices on agricultural land. This includes the following programs administered by the Natural Resource Conservation Service (NRCS):

- \$8.45 billion for the Environmental Quality Incentives Program (EQIP);
- \$4.95 billion for the Regional Conservation Partnership Program (RCPP);
- \$3.25 billion for the Conservation Stewardship Program (CSP); and
- \$1.4 billion for the Agricultural Conservation Easement Program (ACEP).²

As part of the Office of Inspector General's (OIG) oversight responsibility, we reviewed the results of prior OIG and Government Accountability Office (GAO) engagements that were relevant to the funding provided by IRA.³ Identifying areas in which OIG reported past weaknesses and recommendations may provide NRCS insight to maintain or further strengthen existing controls for programs receiving IRA funding. Based on our review, we identified the following findings and recommendations that NRCS may wish to consider to ensure its conservation activities and programs continue to operate effectively with the proper control environment. According to information maintained by the Office of the Chief Financial Officer (OCFO), as of December 9, 2022, some of the recommendations associated with these prior audits have not yet been implemented. These outstanding recommendations are noted as applicable.

¹ This amount includes \$1.3 billion for conservation technical assistance in addition to funding provided for NRCS programs.

² The 2014 Farm Bill consolidated the following three programs into the ACEP: Wetland Reserve Program, Grassland Reserve Program, and the Farm and Ranch Lands Protection Program (FRPP).

³ We limited our review to prior OIG engagements with recommendations tracked by the Office of the Chief Financial Officer.

Environmental Quality Incentives Program

- *Environmental Quality Incentives Program Payment Schedules*⁴: OIG reported that NRCS' use of EQIP regional payment schedules did not consistently represent the producer's cost to implement conservation practices. Furthermore, OIG found that component cost estimates used in regional payment schedules were not always current and cost-effective. Because NRCS relied on outdated and inaccurate component prices to calculate payment schedules, we questioned over \$2.16 billion obligated for fiscal years (FY) 2016–2017. Additionally, NRCS did not properly administer EQIP when disbursing 8 payments identified from 45 sampled files. As a result, NRCS improperly overpaid six EQIP producers \$30,416 and underpaid two producers \$1,176. Moreover, NRCS did not provide sufficient oversight at the State and national levels to detect and correct EQIP payment issues.

OIG recommended that NRCS assess the EQIP payment schedule process to identify opportunities to make it more effective. Component prices should also be validated using receipts and actual costs. NRCS should also train employees on EQIP payment schedules and certification practices and include an internal review of EQIP payment schedules and receipts. According to OCFO, all the recommendations for this audit have been implemented.

- *Environmental Quality Incentives Program*⁵: OIG reported that NRCS' controls over the program needed to be strengthened in order to meet its goal to provide financial and technical assistance to participants to build practices that will address pressing environmental concerns in their areas. Specifically, we found that, while the allocation method adequately considered environmental concerns on the national level, State-level allocation processes did not. Of the six State offices we reviewed, three based their allocations on data such as number of acres, prior year obligations, or geographic location. Second, we found that State offices did not make onsite visits for 139 out of 424 practices to ensure they were completed by the participant, as required by contract. Instead, States allowed contractors and participants to self-certify. Third, we found that of the 16 participants with projects that were significantly behind schedule, NRCS did not take action to identify 11 as non-compliant with their contracts (or modifications to their contracts). In the future, this could limit NRCS' ability to take corrective action. Finally, NRCS did not require follow-up visits to ensure practices were in working order for their intended lifespan—which resulted in several practices we visited not being maintained. Without effective monitoring controls to address these issues, NRCS may not be effectively obtaining the environmental benefits that are expected of EQIP practices.

OIG recommended that NRCS implement controls and perform an analysis to ensure State allocation formulas are tied to environmental concerns. Also, NRCS should implement controls to ensure participants who do not meet contractual timelines are identified as non-compliant. NRCS should also require onsite verification to ensure practices are actually complete. NRCS should obtain a formal OGC opinion to determine if it has the authority to inspect and enforce that practices are maintained by the

⁴ Audit Report 10601-0005-31, *Environmental Quality Incentives Program Payment Schedules*, Sept. 2019.

⁵ Audit Report 10601-0001-31, *Environmental Quality Incentives Program*, July 2014.

participants for the estimated lifespan of the practice versus the duration of the contract. According to OCFO, all the recommendations for this audit have been implemented.

- *Natural Resources Conservation Service and Farm Service Agency: Crop Bases on Lands with Conservation Easements in California*⁶: In a prior audit, OIG examined NRCS' Wetland Reserve Program (WRP) easements recorded from FYs 1999 to 2003 (Audit Report No. 10099-3-SF). OIG reported that NRCS was not communicating easement information to FSA. As a result, FSA made a number of improper farm subsidy payments on easement-encumbered lands and was at risk of making more. During this audit, we found the inadequate communication between NRCS and FSA regarding conservation easements continued to systemically affect FSA's ability to avoid making improper payments on easement-encumbered land.

OIG recommended that NRCS provide training for field office staff in California on their responsibilities for notifying FSA of recorded easements. According to OCFO, all the recommendations made to NRCS for this audit have been implemented.

Regional Conservation Partnership Program

- *NRCS Regional Conservation Partnership Program Controls*⁷: OIG reported that NRCS did not always effectively administer or oversee the RCPP. During our review, we identified inconsistencies regarding the administration of the program and an absence of a formal oversight process by the NRCS national office. Specifically, NRCS inconsistently implemented the RCPP proposal review process, and we also identified documentation retention issues. As a result, NRCS allocated over \$570 million in agreements without adequate internal controls. Furthermore, NRCS did not always act within or enforce compliance with statutory or program requirements.

OIG recommended that NRCS develop and implement guidance, policies, and procedures and a formal national oversight process to assess State and partner compliance; as well as review payments made without adequate documentation and recover any payments made for ineligible expenses. As of December 9, 2022, according to OCFO, NRCS had not implemented the following two recommendations for this audit: (1) Obtain and review additional supporting documentation for the questioned \$632,687 in RCPP payments made without adequate documentation and recover any payments that are determined to be ineligible for technical assistance expenses; and (2) Request the return of previously issued RCPP technical assistance payments of \$60,357 to partners for ineligible expenses.

Conservation Stewardship Program

- *Controls Over the Conservation Stewardship Program*⁸: OIG reported that NRCS did not have sufficient processes in place to coordinate with and use the data of other Department of Agriculture agencies to validate information provided by applicants for CSP benefits. Despite NRCS' efforts to correct these issues, our audit, using Farm Service Agency data,

⁶ Audit Report 50099-11-SF, *Natural Resources Conservation Service and Farm Service Agency: Crop Bases on Lands With Conservation Easements in California*, Aug. 2007.

⁷ Audit Report 10601-0004-31, *NRCS Regional Conservation Partnership Program Controls*, June 2018.

⁸ Audit Report 10601-0001-32, *Controls Over the Conservation Stewardship Program*, Sept. 2016.

identified errors in participant-reported information on 40 of the 59 CSP contracts to which we took exception. We also found that NRCS did not have adequate controls to detect erroneous participant-reported CSP information affecting eligibility and payment amounts. Specifically, participants inconsistently delineated their agricultural operations—they excluded land under their control, enrolled lands they did not control, and/or enrolled agricultural operations that were not substantially separate from other operations—and were able to manipulate payment shares to avoid payment limitation. We also found that NRCS had inadequate controls over contracting for and documenting implementation of conservation enhancements. We took exception to a total of 59 contracts and total estimated contract costs of more than \$11.5 million. Until NRCS creates a cohesive, integrated system of internal controls that routinely identifies and uses other USDA agency data to verify applicant-supplied information, NRCS cannot effectively ensure the integrity of CSP.

OIG recommended that NRCS incorporate specific and ongoing collaboration with other USDA agencies in its compliance strategy, implement controls to ensure CSP applicants' delineations of agricultural operations and CSP payment shares are accurate, and create and implement a control for preventing incompatible enhancements. According to OCFO, all the recommendations for this audit have been implemented.

Agricultural Conservation Easement Program

- *Agricultural Conservation Easement Program - Application Process and Selection Priorities*⁹: OIG reported that NRCS did not consistently maintain sufficient supporting documentation for 52 of 71 sampled applications in a manner that allowed it to be readily available for examination. As a result, we were unable to fully evaluate the ranking scores for the approved applications, which totaled over \$26.5 million of approximately \$51.4 million in FY 2017 and 2018 obligations. Furthermore, without adequate documentation, there is reduced assurance that applications were accurately ranked and selected.

OIG recommended that NRCS clarify ACEP guidance on what supporting documentation is required to be maintained and readily available as support for the ranking and selection of ACEP applications. According to OCFO, all the recommendations for this audit have been implemented.

- *NRCS Controls Over Land Valuations for Conservation Easements*¹⁰: OIG reported that NRCS' control environment for land valuation and payment processes did not meet GAO standards. For example, NRCS did not require management to ensure its staff's compliance with program requirements related to valuation and payment for conservation easements. As a result, NRCS was unable to prevent program officials from paying for insufficiently supported easements valued at over \$43 million. About \$42 million of that easement value was for WRP and the Emergency Watershed Protection (EWP) Program. We found that, because NRCS relied on its State staff to ensure land was properly valued, it did not use controls sufficient to prevent payments for unsupported land valuations.

⁹ Audit Report 10601-0007-31, *Agricultural Conservation Easement Program - Application Process and Selection Priorities*, Sept. 2019.

¹⁰ Audit Report 10601-0001-23, *NRCS Controls Over Land Valuations for Conservation Easements*, Sept. 2015.

The remaining \$1 million in easement value we found was due to the FRPP's use of landowner-obtained appraisals. We found that, although the landowner-obtained appraisals passed technical reviews, NRCS officials did not ensure that appraisals met the terms of signed cooperative agreements with local governments, which prohibit the landowner from approving the appraiser.

OIG recommended that NRCS reassess its oversight and evaluation process to cover key program requirements, require State offices to include all supporting documentation in proposals for NRCS funding, develop a system for national review of State office information collected in support of EWP and WRP payments, and emphasize that landowner-obtained appraisals are strictly prohibited in easement valuations. According to OCFO, all the recommendations for this audit have been implemented.

- *NRCS Conservation Easement Compliance*¹¹: OIG reported that, although the NRCS has recently made improvements to its easement-monitoring policy, a number of additional improvements should be made. We found, for instance, that NRCS is not consistently detecting or reporting violations during onsite monitoring visits. Also, NRCS relies on its National Easement Staging Tool (NEST) for its monitoring of easements, but we found that it contained invalid, incorrect, and incomplete information. Finally, we reviewed the files for 22 noncompliant easements and found 5 landowners who were not notified of the noncompliance and may have been unaware they needed to correct the problem. OIG maintains that such inconsistency in field-level easement monitoring could diminish the agency's ability to effectively monitor its easement investments and compromise the environmental benefits of the easements. Further, without accurate and complete data, the quality of NRCS' monitoring capabilities is impaired.

OIG recommended that NRCS improve the way it carries out monitoring activities at the State and local level; additionally, we recommended improvements to NEST to allow better tracking of easement monitoring. According to OCFO, all the recommendations for this audit have been implemented.

- *Natural Resources Conservation Service's Administration of Easement Programs in Wyoming*¹²: OIG reported that NRCS needs to ensure that its employees are sufficiently knowledgeable to carry out their duties, and to strengthen oversight and accountability of employees' work. Specifically, both the program specialist responsible for processing the easements and the officials responsible for supervising the employee demonstrated a lack of critical program knowledge. We also found that NRCS did not have an adequate system of review in place to ensure that employees were properly reviewed and held accountable. As a result, the Wyoming State office approved at least \$14.1 million in easements that were not correctly processed and did not ensure that the Government's interest in the easements would be served and secured.

OIG recommended that the NRCS National Office should increase its oversight over the State offices' administration of easement programs through revising its current processes

¹¹ Audit Report 10601-0002-31, *NRCS Conservation Easement Compliance*, July 2014.

¹² Audit Report 10099-0001-31, *Natural Resources Conservation Service's Administration of Easement Programs in Wyoming*, Sept. 2013.

or establishing a process through which State offices have their easement approval and administrative activities periodically reviewed. Additionally, NRCS should take appropriate administrative or disciplinary action and complete corrective action to address the deficiencies identified in the functional review report. Until these actions are completed, the Wyoming State office's easement program and budget authorities should be withheld. According to OCFO, all the recommendations for this audit have been implemented.

Related GAO Reports

We also noted the following GAO reports that NRCS may want to consider, which include findings and recommendations relevant to the funding provided by IRA:

- *Farm Programs: USDA Should Take Additional Steps to Ensure Compliance with Wetland Conservation Provisions*¹³;
- *Agricultural Conservation: USDA's Environmental Quality Incentives Program Could Be Improved to Optimize Benefits*¹⁴; and
- *Agricultural Conservation: USDA Should Improve Its Management of Key Conservation Programs to Ensure Payments Promote Environmental Goals*.¹⁵

Additional OIG Ongoing Engagements

Further, we identified two OIG ongoing engagements in NRCS related to programs that received IRA funds (see below). Our plan is to address any potential effect our results could have on IRA funds assigned to these two programs, in separate reports, as applicable:

- *Environmental Quality Incentives Program – Cost Estimation Process*¹⁶: Our objectives are to evaluate EQIP's payment schedule process, including its methodology for cost estimation, and to ensure that applicable corrective actions taken in response to prior audit recommendations remain effective.
- *Conservation Stewardship Program – Participant Control of Land*¹⁷: Our objective is to determine if NRCS ensures CSP participants maintain control of land.

This memorandum contains publicly available information and will be posted in its entirety to our website (<https://usdaoig.oversight.gov>).

¹³ GAO-21-241, *Farm Programs: USDA Should Take Additional Steps to Ensure Compliance with Wetland Conservation Provisions*, Apr. 2021.

¹⁴ GAO-17-225, *Agricultural Conservation: USDA's Environmental Quality Incentives Program Could Be Improved to Optimize Benefits*, Apr. 2017.

¹⁵ GAO-07-370T, *Agricultural Conservation: USDA Should Improve Its Management of Key Conservation Programs to Ensure Payments Promote Environmental Goals*, Jan. 2007.

¹⁶ Audit No. 10601-0008-31.

¹⁷ Audit No. 50601-0005-23.

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