



# Controls Over Conservation Innovation Grants Program

## Audit Report 10099-0001-23

We reviewed NRCS' oversight of the CIG program.

### OBJECTIVE

Our objectives were to determine if recipients used matching funds in proportion to CIG funds and to determine if CIG funds were expended for eligible program purposes and in accordance with applicable regulations and grant agreements.

### REVIEWED

We reviewed NRCS' oversight of the CIG program at the national and State level for fiscal years 2014 through 2016, which included grant files for 37 of 267 CIGs totaling nearly \$14.9 million.

### RECOMMENDS

We recommend that NRCS develop or revise its policies for monitoring CIG projects including processing payments, ensuring accurate reporting to Congress of CIG activity, and ensuring \$1,271,659 million of insufficiently supported matching funds is verified and reconciled.

### WHAT OIG FOUND

The Natural Resources Conservation Service (NRCS) administers the Conservation Innovation Grants (CIG) program by awarding grants to State and local governments or nongovernmental organizations, American Indian Tribes, or individuals to improve fertilizer, water, and on-farm energy use to innovate environmental markets to improve water quality or to make agriculture more resilient to weather extremes. However, we determined NRCS needs to strengthen its program monitoring policies and procedures. Specifically, we found that NRCS did not: (1) properly monitor CIGs to ensure adequate progress toward achieving the grant project's objectives; (2) maintain sufficient records for matching funds for 4 out of the 11 CIG awards we reviewed; (3) include any State CIG program data relating to award funding and project results in their 2014 and 2016 reports to Congress; (4) make timely payments for 100 of 229 CIG payment requests; or (5) establish a conflict of interest policy or maintain copies of the required forms.

These issues occurred because NRCS' existing procedures as well as policies for reviewing and monitoring CIGs are insufficient: NRCS reimbursed nearly \$4.4 million to grantees who did not adhere to the terms of grant agreements; NRCS cannot confirm that grantees collected and used matching funds during their projects from non-Federal sources; and NRCS national officials could not determine whether State CIGs facilitated the adoption of approaches to address the Nation's natural resource concerns. Also, NRCS approving officials could have a vested interest in the work conducted under CIGs or in the grant recipients.

NRCS generally agreed with our recommendations, and we accepted management decision on 11 of the 13 recommendations.





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



DATE: September 11, 2018

AUDIT  
NUMBER: 10099-0001-23

TO: Leonard Jordan  
Acting Chief  
Natural Resources Conservation Service

ATTN: Leon Brooks  
Director  
Compliance Division

FROM: Gil H. Harden  
Assistant Inspector General for Audit

SUBJECT: Controls Over Conservation Innovation Grants

This report presents the results of the subject audit. Your written response to the official draft report, dated July 12, 2018, is included in its entirety at the end of this report. Excerpts from your response and the Office of Inspector General's position are incorporated in the relevant sections of the report. Based on your written response, we accept the management decision on Recommendations 1, 2, and 5 through 13. However, we are unable to accept the management decision on Recommendations 3 and 4. The actions needed to reach management decision on the recommendations are described in the relevant OIG Position sections.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, and timeframes for implementing the recommendations for which management decisions have not been reached. Please note that the regulation requires management decision to be reached on all recommendations within 6 months from report issuance, and final action to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report. Please follow your internal agency procedures in forwarding final action correspondence to OCFO.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publicly available information and will be posted in its entirety to our website (<http://www.usda.gov/oig>) in the near future.



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## Background and Objectives

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### Background

The mission of the U.S. Department of Agriculture's (USDA) Natural Resources Conservation Service (NRCS) is to improve the health of our Nation's natural resources while sustaining and enhancing the productivity of American agriculture. NRCS provides voluntary assistance through partnerships with private landowners, managers, and communities to conserve, protect, restore, and enhance the lands and waters upon which people and the environment depend.<sup>1</sup>

The Farm Security and Rural Investment Act of 2002<sup>2</sup> established the Conservation Innovation Grant (CIG) program to stimulate development and adoption of innovative conservation approaches and technologies in conjunction with agricultural production. NRCS administers the CIG program by awarding grants to State and local governments or nongovernmental organizations, American Indian Tribes, or individuals. NRCS awarded its first CIG in 2004. Since then, grantees have worked with NRCS, farmers, ranchers, and forest landowners to develop next generation conservation approaches and technologies. CIG accelerates technology transfer and the adoption of technologies and approaches to address some of the Nation's natural resource concerns. Projects can result in production and operational benefits as well. CIGs have supported new technologies to improve fertilizer, water, and on-farm energy use to innovate environmental markets to improve water quality or to make agriculture more resilient to weather extremes. For example, NRCS awarded a grant to demonstrate the positive impacts of "managed grazing" not only on the environment, but also on farm profitability.

CIGs are subject to the provisions of federal regulations,<sup>3</sup> agency guidance, and the terms and conditions of the grant agreements. The grant agreement documents the relationship between NRCS and a State or local government, or other recipient. CIG projects may be single-or multi-year, but they cannot exceed 3 years.

NRCS awards the CIGs through national and State competitions. Funding availability and thresholds are established by the NRCS Chief. At the national level, award thresholds historically fall at either \$1 million or \$2 million. The NRCS State offices may use up to 5 percent of their Environmental Quality Incentives Program (EQIP) funding for the CIG program.<sup>4</sup> Individual State awards cannot exceed \$75,000.

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<sup>1</sup> NRCS Strategic Plan Update, FY 2016-2018.

<sup>2</sup> Farm Security and Rural Investment Act of 2002, Pub. L. No. 107-171, 116 STAT. 257, Sec. 1240H.

<sup>3</sup> 2 Code of Federal Regulation (C.F.R.) pt. 200, Jan. 1, 2016 and 7 C.F.R. § 1466.27, Jan. 1, 2016.

<sup>4</sup> The Environmental Quality Incentives Program (EQIP) was established to promote agricultural production and environmental quality as compatible goals, and to optimize environmental benefits by assisting producers in complying with regulatory requirements for: a) soil, water, and air quality; b) wildlife habitat; and c) surface and ground water conservation. Office of Inspector General (OIG) Audit 10601-0005-31 is currently reviewing the EQIP payment schedules.

At both the national and State levels, grantees are awarded up to 50 percent of the project's total cost and are required to provide non-Federal matching funds, cash and/or in-kind,<sup>5</sup> equal to the amount of Federal funds. During the application review process, both national and State officials used commitment letters provided by grantees to verify matching funds. The commitment letters, which grantees obtain from interested parties, contain a statement affirming their intent to make a cash or in-kind contribution to the project.

Both the national and State CIG competitions are announced on the *grants.gov* Federal grants online portal through an Announcement for Program Funding (APF). The APF identifies the objectives, eligibility criteria, application instructions, and natural resource concerns eligible for funding. Once NRCS receives the CIG applications and proposals, a peer review panel assesses the proposals using the evaluation criteria identified in the APF.

At the national level, the peer review panel then forwards the CIG proposals and evaluations to the Grant Review Board. The Grant Review Board, comprised of NRCS State Conservationists and Assistant Deputy Chiefs, reviews the panel's evaluations to make a recommendation for approval to the Chief. The NRCS Chief makes the final selections for national awards. National CIG competitions emphasize projects that have a goal of providing conservation benefits such as improved water quality and soil health over large geographic areas.

At the State level, once the peer review panel evaluates the proposals, it provides recommendations to the State Conservationist, who then selects projects for the State CIG program. The State CIG component emphasizes projects that benefit a limited geographic area. Projects may be farm-based, multi-county, small watershed, or statewide in scope. For example, State CIG awards may address restoring plant ecosystems native to a specific region, or find ways to integrate existing software with NRCS tools.

For each CIG project, NRCS assigns a technical contact who specializes in fields relevant to the CIG activity to provide support and track project milestones. NRCS also assigns an administrative contact in the Grants and Agreements Services Branch (GASB) to all CIG projects. GASB staff complete the administrative tasks for the CIG program, including reviewing and posting the APF, downloading the program applications, generating each grant agreement, sending the pre-award letter to the recipient, and processing payment requests.

On a quarterly basis, in order to monitor the CIG activities and as part of the terms of each CIG grant agreement, NRCS requires grantees to submit the quarterly financial report<sup>6</sup> to the assigned NRCS administrative contact. Grantees are also required to submit semiannual reports to the assigned NRCS technical contacts. Grantees use the quarterly financial reports to provide NRCS with information on both the CIG funds and matching funds used in the project. NRCS uses the semiannual reports to monitor grantees' progress toward completing CIG project goals. The semiannual reports should include a comparison of actual accomplishments with the goals and objectives established for the reporting period; the reasons why goals and objectives were not

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<sup>5</sup> Third-party in-kind contributions means the value of non-cash contributions (for example, property or services) that (a) benefit a Federally assisted project or program; and (b) are contributed by non-Federal third parties, without charge, to a non-Federal entity under a Federal award.

<sup>6</sup> Standard Form (SF)-425 Federal Financial Report.

met, if appropriate; and additional pertinent information including, where appropriate, an analysis and explanation of cost overruns or high unit cost. Within 90 days of the completion of the project, grantees are required to submit a final financial report to the administrative contact and a final project report to the technical contact.

Following receipt of the final project report, the CIG grant agreement is closed and the National Technology Integration Subcommittee (NTIS) evaluates project results for adoption potential. The NTIS assesses CIG project evaluations and final reports for all completed CIG projects and uses those results to provide recommendations for technology transfer and integration. The focus of CIG is to identify, test, and demonstrate new technologies, or new applications of existing technologies. Therefore, technology transfer (sharing ideas and experiences during and after the life of the grant) and technology integration (incorporating the findings and lessons into NRCS and other conservation activities) are important aspects for both the grantee and the agency.

## **Objectives**

Our objectives were to determine if recipients used matching funds in proportion to CIG funds and to determine if CIG funds were expended for eligible program purposes and in accordance with applicable regulations and grant agreements.

We selected a non-statistical sample of 37 CIGs (from a universe of 267 CIGs) to review, and 26 non-statistically selected expense line items and found that those CIG funds were used for eligible purposes.

## Section 1: NRCS' Controls Over CIG Post-Award Monitoring and Reporting

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### Finding 1: NRCS Needs to Improve its Monitoring of the CIG Program

NRCS did not properly monitor CIG projects before reimbursing grantees for project expenses. Within the scope of our review, we found that NRCS obtained only 42 of the required 104 semi-annual progress reports and only 100 of the 212 required quarterly financial reports for CIGs, yet continued to reimburse the grantees for project expenses. This occurred because NRCS' existing policies for monitoring CIGs did not include procedures for tracking receipt of the reports. As a result, NRCS reimbursed nearly \$4.4 million for 35 of 37 grants without ensuring that grantees made progress towards the grant objectives, that grantees' expenditures were in line with relevant statutes, and that grantees otherwise adhered to the terms of the grant agreement.

Office of Management and Budget (OMB) guidance states that management is responsible for monitoring the effectiveness of internal controls in the normal course of business.<sup>7</sup> Also, management is responsible for establishing and maintaining internal controls to achieve specific internal control objectives related to operations, reporting, and compliance.<sup>8</sup> NRCS guidance explains that the review of performance reports is one form of monitoring that provides assurance that adequate progress is being made toward: 1) achieving the grant project's objectives; 2) expenditures are in line with relevant statutes, regulations, agency administrative requirements, and OMB circulars; and 3) that Federal funds are used responsibly. It is important that all monitoring actions be documented and that documentation be placed in the official grant agreement file.<sup>9</sup> Grantees are responsible for submitting written performance progress reports semiannually and Federal Financial Reports (SF-425) quarterly.<sup>10</sup> NRCS makes payments to grantees upon completion of work. Failure to submit financial reports in accordance with the grant agreement may result in suspension or termination of award.<sup>11</sup>

In order to evaluate whether NRCS was adequately monitoring CIG awards, we reviewed a sample of CIG files and verified whether the files contained the required number of progress and financial reports. We reviewed 37 CIG files<sup>12</sup> and found that NRCS obtained only 42 of the 104 required semiannual progress reports (40.4 percent) and only 100 of the 212 required quarterly financial reports (47.2 percent). We found only 2<sup>13</sup> of the 37 CIG files contained all the required reports. Since NRCS guidance identified review of the performance reports as a form of monitoring to ensure that adequate progress is being made, project expenses are in compliance, and Federal funds are used responsibly, we concluded that NRCS could not adequately monitor the sampled CIGs with so many reports missing.

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<sup>7</sup> OMB, *Management's Responsibility for Internal Control*, Circular A-123, section II.E, (Dec. 21, 2004).

<sup>8</sup> OMB, *Management's Responsibility for Enterprise Risk Management and Internal Control*, Circular No. A-123, (July 15, 2016).

<sup>9</sup> USDA NRCS Handbook, Title 120, Part 600, Subpart G, § 600.60, "Monitoring," (June 2013).

<sup>10</sup> USDA NRCS Manual, Title 440, Part 526, Subpart B, § 526.20(D), (Feb. 2013).

<sup>11</sup> National Instruction 120-331, Notice of Grant and Agreement Award, "General Terms and Conditions, Grants and Cooperative Agreements," dated 2011.

<sup>12</sup> We reviewed 31 nationally awarded CIGs and 6 State awarded CIGs, totaling 37 out of 267.

<sup>13</sup> Both were nationally awarded CIGs.

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NRCS assigned each CIG project a technical and administrative contact for the project performance period. According to NRCS policy, the technical and administrative contacts monitor CIG projects by obtaining and reviewing semiannual progress reports and quarterly financial reports from the grantees. However, we found that the technical and administrative contacts did not obtain all the reports. For example, NRCS reimbursed one grantee almost \$663,000 for CIG project expenses without obtaining any of the 5 required semiannual progress reports and 10 required quarterly financial reports. The grantee provided OIG with all the reports during our site visit and stated that it did not send the reports to NRCS because a technical contact was not available for the majority of the 3-year grant period, September 24, 2014 through September 30, 2017. However, an NRCS national official stated that all grantees in the CIG program were informed on August 3, 2015, that grantees should use the provided e-mail address for submitting reports because of staffing issues.

We also found that NRCS reimbursed another grantee nearly \$75,000 for CIG project expenses without obtaining any of the three required semiannual progress reports or seven required quarterly financial reports. We determined that a technical contact was assigned to the CIG project when it began in September 2015, but retired in January 2016. The project's new technical contact was not assigned until the project was completed in September 2017 and was unable to locate any of the reports for the project. Overall, we determined that NRCS reimbursed \$4,366,090 to 35 grants without ensuring grantees adhered to the terms of the CIG agreements.

According to an NRCS national technical contact, they did not always have the time or resources necessary to fulfill their responsibilities regarding CIG projects. One technical contact assigned to four CIG projects stated that his primary NRCS duties as a resource specialist prevented him from spending more than 10 percent of his time monitoring CIG projects. Another NRCS national official stated that some technical contacts were very involved with the CIG projects and some were “hands off.” We provided NRCS officials with an opportunity to locate the reports missing from the CIG files. However, NRCS officials did not locate any of the missing reports.

Even though NRCS guidance stated that monitoring CIG projects included reviewing performance reports and documenting this information within the CIG file, we found that NRCS guidance did not specifically require the NRCS contacts to track submission of the reports or conduct any other methods of monitoring grant progress. In addition, while the CIG grant agreement informed grantees that payments would be made only upon completion of work and that failure to submit financial reports in accordance with the grant agreement may result in suspension or termination of award, NRCS did not actually impose these consequences. NRCS officials stated that they did not withhold payment when the grantees that we reviewed did not submit the required reports because the agency did not have a system to accommodate that type of process. NRCS officials also stated that the agency does not have the resources to perform routine site visits for all of the grants to determine that grantees were meeting their requirements. Without the performance reports, NRCS has reduced assurance that grantees fulfilled the intent of the grant agreement. Therefore, we recommend that NRCS review and revise its existing policy for monitoring CIG projects. The process should include tracking receipt of the semiannual progress reports and quarterly financial reports, identifying and obtaining late reports, and ensuring that technical contacts are always assigned to CIGs. The agency also needs

to establish compliance measures for grantees who violate the reporting requirements outlined in the grant agreement.

## **Recommendation 1**

Review and revise existing policy for monitoring CIG projects at both the national and State levels to include tracking receipt of performance reports and ensuring grantees have NRCS contacts available for assistance during the entire performance period.

### **Agency Response**

In its July 12, 2018, response, NRCS stated that it agreed with this recommendation:

NRCS will develop new policy for monitoring CIG projects at the national and State levels to include tracking receipt of performance reports and ensuring grantees have NRCS contacts available for assistance during the entire performance period of the award. The policy will address central receipt and consistent tracking of required reports across all agency program areas. Beginning in fiscal year (FY) 2018, new grantees will submit reports through ezFedGrants, the Farm Production and Conservation Business Center's system of record, which will allow administrative and technical contacts to easily access reports. [The ezFedGrants] also provides a streamlined view of submitted deliverables to review prior to processing payments. [NRCS officials also stated that a number of actions have already been made to improve the oversight of the CIG program. These actions include instituting a procedure for accepting, filing and recording the submission of all required financial and progress reports, developing a New Grantee Guide, and increasing communication with national CIG technical contact staff].

The estimated completion date is December 31, 2018.

### **OIG Position**

We accept management decision on this recommendation.

## **Recommendation 2**

Establish a process for withholding payments from grantees who violate the reporting terms and conditions outlined in the CIG grant agreement.

### **Agency Response**

In its July 12, 2018, response, NRCS stated that it agreed with this recommendation:

NRCS will develop policy to establish a process for withholding payments from grantees who violate the reporting terms and conditions outlined in CIG agreements. Consideration will be given to the restrictions at 2 CFR 200.207 and 2 CFR 200.338,

as well as the terms and conditions incorporated into agreement awards. New procedures will be put into place that ensure Grants and Agreements Specialists provide critical review of requests for reimbursement prior to forwarding to Program Managers for approval and Accounts Payable/Receivable for final processing. The new policy will include processes for rejecting requests for reimbursement if required deliverables (e.g., SF425) have not been submitted.

The estimated completion date is December 31, 2018.

## **OIG Position**

We accept management decision on this recommendation.

## **Recommendation 3**

Obtain and assess missing quarterly and semiannual reports from the 35 CIGs reviewed and determine if \$4,366,090 in CIG funds were paid out appropriately or if funds should be recovered. If CIG funds should be recovered, begin the recovery process.

## **Agency Response**

In its July 12, 2018, response, NRCS stated that it disagrees with this recommendation:

Grantee reporting is not the sole determinant of whether a payment request is processed. The contents of grantee reports and whether a payment is processed are not linked in NRCS policy. CIG staff and technical contacts monitor and provide oversight to projects outside of the required reports. When a payment request is submitted, NRCS staff analyzes the request and any supporting documentation. Based on this analysis alone, NRCS can determine that the payment request is valid and process the payment.

In addition, NRCS questions the methodology OIG used to derive the \$4,366,090 amount. In one case, the grantee had submitted seven out of the nine required reports, yet the entire amount (\$226,749) disbursed to that point to the grantee was flagged as potentially inappropriate. There are a number of similar cases in OIG's analysis. Beyond the previous explanation that the appropriateness of payments is not explicitly linked to report submissions, NRCS believes OIG's methodology overstates the amount of potentially inappropriate payments.

As stated in Recommendation 1, NRCS, on October 1, 2017, instituted a procedure for accepting, filing, and recording submission of all required financial and progress reports for the CIG national component, which will ensure that the agency does not find itself in a similar situation. Therefore, the agency considers this item complete.

## **OIG Position**

We do not accept management decision for this recommendation. OIG questioned the entire amounts disbursed to grantees because NRCS' process for monitoring the CIG program did not ensure funds were used in accordance with the terms and conditions of the grant agreement and those grantees made progress towards the grant objectives. In its response to Recommendation 2, NRCS agreed to implement a policy that connects payments and report submissions.

Therefore, in order to reach management decision, NRCS needs to determine if the \$4,366,090 in CIG funds should be recovered and begin the recovery process.

## **Finding 2: NRCS Needs to Improve Its Monitoring of Matching Funds**

We found that grantees did not maintain or provide sufficient records to validate matching funds for 4 out of the 11 CIG awards<sup>14</sup> we reviewed on-site. This occurred because NRCS did not require grantees to provide documentation for their matching funds and only required them to self-certify<sup>15</sup> the funds on the quarterly financial report. As a result, we identified \$1,271,659<sup>16</sup> in unsupported matching fund contributions.<sup>17</sup> Therefore, NRCS cannot confirm that grantees collected and used matching funds from non-Federal sources, as agreed to, during their projects.

Federal regulations require that grantees' records contain verifiable information for any costs and third party in-kind contributions.<sup>18</sup> Furthermore, Federal regulation states that the awarding agency may impose additional conditions for noncompliance with Federal statutes, regulations, or the terms and conditions of a Federal award.<sup>19</sup> Finally, the general terms and conditions of the grants state the grantee must maintain records of all project costs claimed by the grantee as cost sharing as well as records of costs to be paid by NRCS.<sup>20</sup>

We reviewed five national CIGs awarded to two grantees and found that one of the two grantees did not maintain documentation to support the use of over \$750,000 in matching funds.<sup>21</sup> Because NRCS did not require the grantees to submit supporting documentation for the use of matching funds, we limited our review to the locations we visited.

While we were able to verify the grantee's cash matching funds, we could not verify the source or value of the in-kind portion of the matching funds. We discussed the missing information with the grantee. The grantee acknowledged that it had done a poor job of tracking in-kind matching funds for its 2014 agreement. The grantee also stated that it did not know how to complete the quarterly financial reports and did not know to whom to send the reports. As a result, we identified over \$750,000 in unsupported in-kind matching funds.

Current NRCS policy does not require the agency to verify that grantees provide supporting documentation for matching funds to NRCS. We presented this information to NRCS national officials who responded that in the future, they would review the supporting documentation to

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<sup>14</sup> We conducted site visits for 11 of 37 CIG awards (5 national-approved and 6 State-approved) received during FYs 2014-2016.

<sup>15</sup> According to the online Oxford Dictionary, self-certification is, "the practice of giving information about oneself or one's company in a formal statement rather than being obliged to ask a third party to do so." When grantees sign the quarterly financial reports, they certify that the information reported is true, complete, and accurate and acknowledge that any false or fraudulent information is subject to penalties.

<sup>16</sup> During FYs 2014-2016, in-kind matching contributions for one national award totaled over \$750,000 out of \$1.7 million, and cash and in-kind matching contributions for the 3 State awards totaled over \$500,000 out of \$574,904.

<sup>17</sup> Per federal regulations, in order to receive grant funds, recipients must fund at least 50 percent of the total project cost from other than Federal sources (matching funds).

<sup>18</sup> 2 C.F.R. §200.306 (b)(1), (Jan. 1, 2016).

<sup>19</sup> 2 C.F.R. §200.338, (Jan. 1, 2016).

<sup>20</sup> Terms and Conditions (VI. a.): Failure to submit reports in accordance with the above [Financial Reporting] schedule may result in suspension or termination of award.

<sup>21</sup> This same grantee is a part of our review of grants in Finding 1 for not having submitted any quarterly financial reports to NRCS, which are used to report the use of non-Federal funds.

ensure both the Federal and matching funds reported by the grantees on the quarterly financial reports are accounted for.

We also reviewed State-awarded CIGs and found three out of six grantees could not provide sufficient documentation to support matching funds for their CIG awards. We requested documentation to determine if matching funds were used in proportion with Federal funds received. However, three grantees were unable to provide sufficient documentation to support receipt of the matching funds. As a result, we identified over \$500,000 out of \$574,904 in unsupported matching funds for State CIG awards.

According to NRCS State officials, NRCS did not require anything additional from the grantees other than self-certifying on the quarterly financial report that matching funds were received. Relying on self-certification without documentary review reduced the agency's ability to ensure expenditures are in-line with applicable laws and regulations and that grantees used Federal funds efficiently and effectively.

Federal regulation requires grantees to maintain documentation to support all costs associated with CIG projects for 3 years after the date of submission of the final expenditure report. Although NRCS includes this requirement in the terms and conditions of the CIG agreements, the agency does not verify that grantees adhere to these terms. Therefore, NRCS needs to develop controls, such as periodic reviews, to ensure grantees obtain and document matching funds accurately. Additionally, NRCS needs to verify the almost \$1,271,659 in matching funds associated with the projects we reviewed.

#### **Recommendation 4**

Develop a process to conduct and document periodic reviews of the grantees' records, at the national and State level, to verify third party matching contributions, i.e. cash and/or in-kind, obtained and utilized during CIG projects.

#### **Agency Response**

In its July 12, 2018, response, NRCS disagreed with this recommendation:

NRCS disagrees that a process to conduct and document periodic reviews of grantee records is necessary. The agency acknowledges that it needs to improve its oversight and verification of grantee matching funds, and believes it can accomplish this improvement through improved financial report reviews and improved outreach to grantees.

Grantees are required to report and certify (under penalty of law) the use of matching funds from all sources on their SF-425 financial reports. NRCS will improve its oversight of this reporting (including flagging and following up on potential discrepancies in the reporting of matching funds), as outlined in Recommendation 1, to help mitigate any current shortcomings. In addition, NRCS

will improve its communications with grantees regarding maintenance of matching funds documentation, as described in Recommendation 5.

## **OIG Position**

We do not accept management decision for this recommendation. While NRCS' response includes improvement to the CIG program, it does not identify a process to conduct and document periodic reviews of the grantees' records, at the national and State level, to verify third party matching contributions, i.e. cash and/or in-kind, obtained and utilized during CIG projects. Federal regulations and the grant agreement require the grantee to maintain documentation to support the matching funds. Without reviews, NRCS cannot confirm that grantees collected and used matching funds from non-Federal sources, as agreed to, during their projects. In order to reach management decision, NRCS needs to establish a process to verify the receipt and use of the matching funds reported on the SF-425.

## **Recommendation 5**

Reinforce the provisions of the terms and conditions in the CIG agreement relating to maintaining supporting documentation, including documentation for matching funds.

## **Agency Response**

In its July 12, 2018, response, NRCS stated that it agrees with this recommendation:

NRCS will reinforce the provisions of the terms and conditions requiring grantees to maintain supporting documentation in accordance with 2 CFR 200.333, including documentation for matching funds. Language will be added to the CIG New Grantee Guide, and content on matching funding documentation will be added to the CIG orientation for new grantees. Correspondence directly addressing this issue will be sent to all current CIG grantees.

The estimated completion date is December 31, 2018.

## **OIG Position**

We accept management decision on this recommendation.

## **Recommendation 6**

Ensure the identified \$1,271,659 of insufficiently supported matching funds is verified and reconciled. NRCS should take appropriate action where applicable.

## **Agency Response**

In its July 12, 2018, response, NRCS stated that it agrees with this recommendation:

NRCS will take steps to verify and reconcile the \$1,271,659 in matching funding noted by OIG. National CIG staff will collaborate with Grants and Agreements staff to complete this task.

The estimated completion date is October 1, 2018.

## **OIG Position**

We accept management decision on this recommendation.

### **Finding 3: NRCS Needs to Improve its Oversight of the State CIG Program**

NRCS did not accurately report the status of 129 State CIG projects totaling over \$8.2 million to Congress. This occurred because NRCS did not designate a person at the national office to monitor the State CIG program. Additionally, NRCS State offices did not submit State CIG data to the national office as required. As a result, NRCS national officials cannot determine whether State CIGs fulfilled the intent of the program to facilitate the transfer and adoption of technologies and approaches to address natural resource concerns.

The 2014 Farm Bill states that every 2 years the Secretary shall submit a report on the status of CIG projects funded, including (1) funding awarded; (2) project results; and (3) incorporation of project findings.<sup>22</sup> OMB Circular No. A-123 states the monitoring of the effectiveness of internal controls should occur through the normal course of business and information should be communicated to relevant personnel at all levels within an organization.<sup>23</sup> Also, management is responsible for establishing and maintaining internal controls to achieve specific internal control objectives related to operations, reporting, and compliance.<sup>24</sup> In addition, the Green Book<sup>25</sup> section 13.04 states, “management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements.”

In May 2017, we requested a list of State CIG awards from 2014 through 2016 from NRCS’ national office to identify our universe of State awarded CIGs from which to select our sample. We found that NRCS national officials were unable to provide this information upon request as they did not have access to this information. To rectify this, NRCS issued a bulletin on July 7, 2017 to all State offices requesting State CIG award information from 2014 through 2016. We reviewed the data and found some award amounts in excess of the \$75,000 State award threshold, which meant these awards were not CIGs. Additionally, one award listed a county location instead of a State. Based on this review, we returned the report to NRCS and requested that the State offices review the data to verify that we received only CIG awards and that the information provided for each award was correct. NRCS provided an updated report, where we confirmed that the States did not include any awards in excess of \$75,000.

During our visits to two NRCS State offices, we discussed the discrepancies with NRCS State officials. One official in one State informed us that they did not understand the initial request from the national office. Another State official said that they send NRCS information every year regarding their intent to fund CIGs and the funding amounts. However, the State official added that CIG program results are available to the national office upon request. Once all data were verified, we determined that NRCS State officials approved 129 CIG projects totaling \$8.2 million from 2014 through 2016.

We reviewed NRCS’ 2014 and 2016 reports to Congress on CIG program activity and found that the reports did not include information for the 129 State CIG awards that we identified even

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<sup>22</sup> Agricultural Act of 2014, Pub. L. No. 113-79, 128 STAT. 731, Sec. 2207 (2014 Farm Bill).

<sup>23</sup> OMB, *Management’s Responsibility for Internal Control*, Circular A-123, (Dec. 21, 2004).

<sup>24</sup> OMB, *Management’s Responsibility for Enterprise Risk Management and Internal Control*, Circular A-123 (July 15, 2016).

<sup>25</sup> Government Accountability Office, *Standards for Internal Control in the Federal Government* (September 2014).

though NRCS has a legal responsibility to report this information to Congress. We also found NRCS was not enforcing its policy that required State offices to report State CIG funding, project results, and the incorporation of project results into NRCS programs to the national office on an annual basis. In the 2014 report to Congress, NRCS stated that the State data were not available. The 2016 report to Congress did not mention the State CIG awards or that the data were not available. However, we determined that one of the two States we visited submitted the required information to the national office in 2014, yet NRCS did not include this information in the 2014 report to Congress.

We discussed this issue with NRCS national officials who stated that they did not have staff available to compile the results for State awards. Additionally, NRCS national officials agreed that the State CIG program needs more oversight from the national office. In July 2017, the NRCS national office hired a new employee to address concerns with the management of the State CIG program; however, NRCS had not clearly defined duties for this position as of the conclusion of our audit fieldwork. The national agency officials stated that NRCS conducted an operational workshop February 21–22, 2018, which provided support for CIG State staff and expectations for administering the State CIG component. NRCS also planned to post a national bulletin for each FY to request State program information beginning in FY 2018.<sup>26</sup> While NRCS has taken steps towards addressing these issues, we are recommending that NRCS develop policies and procedures for the oversight of the State CIG program. Additionally, NRCS needs to evaluate and revise current guidance to enforce the requirement for States to provide CIG program data on an annual basis and provide detailed guidance on what information to include to ensure accurate reporting to Congress. Further, NRCS needs to ensure Congress receives information regarding the 129 state CIG awards made between FY 2014 through FY 2016.

## **Recommendation 7**

Define the roles and responsibilities of the national office staff responsible for monitoring the State CIG program.

### **Agency Response**

In its July 12, 2018, response, NRCS stated that:

In July 2017, NRCS hired a new member of the CIG staff. This staff member's responsibilities include providing oversight and guidance for State CIG programs and staff. The staff member's duties are clearly defined in the position description and in annual performance plans. In addition to this new staff member, the Director of the Conservation Innovations Team has ultimate responsibility for providing programmatic oversight and guidance for State CIG programs and staff. Grants and Agreements Services Branch staff provide administrative support and oversight of State CIG programs.

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<sup>26</sup> NRCS issued a National Bulletin on Oct. 16, 2017 requesting all State CIG data from FY 2004 through FY 2017.

Since early 2017, communication and the development of guidance for State CIG staff has increased markedly. State CIG staff from 47 States and Territories convened in-person in February 2018 for a 2-day operational workshop. This workshop was an important forum for communicating information and ideas on all aspects of administering the CIG program.

Following the conclusion of the workshop, regular communication between national and State CIG has continued.

The estimated completion date is July 31, 2018.

### **OIG Position**

We accept management decision on this recommendation.

### **Recommendation 8**

Revise existing procedures requiring State offices to provide information on the State's CIG program to the national office annually. The updated procedures should detail the information the national office expects in each report to ensure accurate reporting to Congress.

### **Agency Response**

In its July 12, 2018, response, NRCS stated that it agrees with this recommendation:

NRCS plans to resume issuance of an annual national bulletin in October to capture critical information on projects funded by each State program.

The estimated completion date is December 31, 2018.

### **OIG Position**

We accept management decision on this recommendation.

### **Recommendation 9**

Ensure the December 2018 report to Congress includes CIG project funding and results from the State awarded CIGs, to include current year and historical data omitted from prior reports, including but not limited to the 129 CIG State awarded projects we identified totaling \$8.2 million.

## **Agency Response**

In its July 12, 2018, response, NRCS stated that it agrees with this recommendation:

NRCS will include information on the State component for FY 2014 forward.

If required, the next Congressional report will likely be due by December 31, 2018.

## **OIG Position**

We accept management decision on this recommendation.

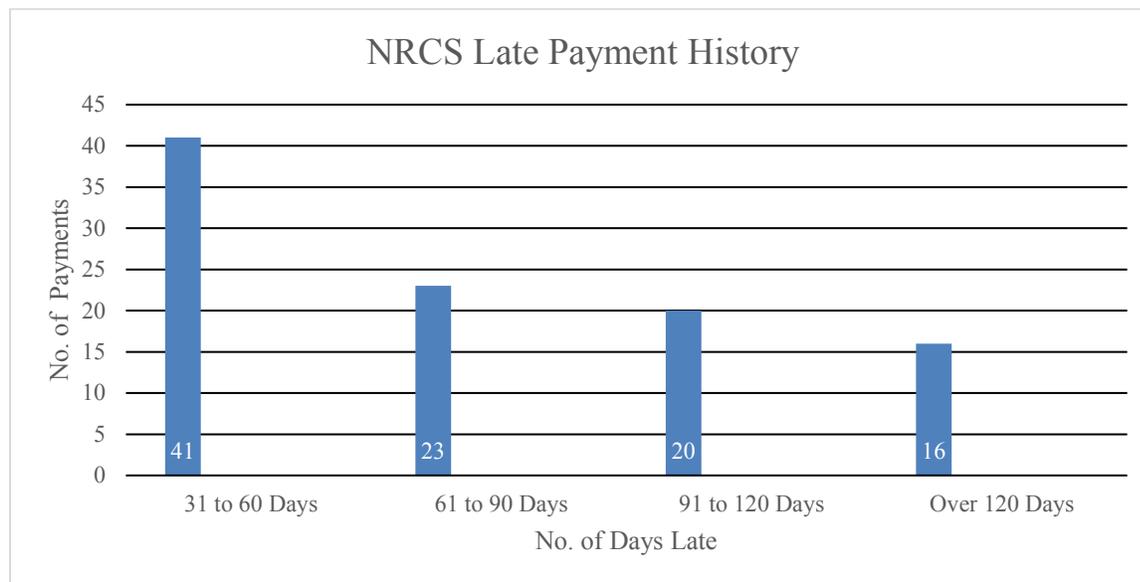
## Finding 4: NRCS Needs to Ensure Payments are Processed Timely

NRCS did not make timely payments for 100 of 229 CIG payment requests.<sup>27</sup> In 36 instances, NRCS processed payments in excess of 90 calendar days after the grantees submitted their requests. This occurred because NRCS did not establish a process to ensure timely payments. As a result, consistent late payments could adversely affect project timelines and results.

The OMB Uniform Guidance for Federal Awards requires awarding agencies to make payments to grantees within 30 calendar days of receipt of the “Request for Reimbursement” (SF-270).<sup>28</sup>

When a grantee submits a CIG payment request, the administrative contact reviews the request, prepares an accounts payable tracking sheet, and submits the request to the program contact. The program contact reviews and approves the payment requests and submits it to accounts payable. During our review, we identified significant delays between the time the grantees submitted payment requests to the administrative contact and the time the requests were submitted to the program contact for approval.

We reviewed 229 eligible payment requests from grantees within our sample of 37 CIGs awarded during FYs 2014-2016. We found NRCS made payments more than 30 days after they received a request for 100 payments (44 percent). The chart below illustrates the distribution of the 100 late payments made by NRCS officials.



We noted that one grantee suspended a project on grazing management for livestock for one and one half months and requested a “no cost extension” due to nonpayment of reimbursements for approximately \$26,500. We found that another grantee received 3 of their 5 payments between 42 to 139 days after the payment requests. This project was for developing an economic

<sup>27</sup> These requests include both national and State CIGs as all CIG payments are processed at the national level.

<sup>28</sup> 2 C.F.R. 200.305(b)(3), Jan. 1, 2016.

engineered windbreak wall using a vegetative strip system to reduce pollutant and odor emissions from livestock barns.



**Figure 1. This image is of a windbreak wall. Image used with permission of the grantee.**

Lastly, we found another grantee did not receive 3 of their 9 payments for over 120 days, and one of those payments was not received until 253 days after the payment request. This project sought to educate producers on how to use stockpiled forage in their grazing plans to reduce feed cost and improve soil health. The grantee did not note any adverse effects to the project due to the delay of payments.

We discussed this with NRCS national officials. One national official stated the payment requests were never with the accounts payable office more than 5 business days. Another national official stated that these issues were due to understaffing and dedicating resources to other priorities. Nevertheless, NRCS needs to establish a policy for processing and tracking CIG

reimbursement requests to ensure grantees receive payments no later than 30 business days after the agency's receipt of the requests. This would keep NRCS in compliance with Federal laws and avoid any adverse effects such as suspended projects.

## **Recommendation 10**

Develop policies that establish timeframes for each part of the CIG payment process, from receipt and review of the payment request and supporting documents through submission of the application to the Accounts Payable Branch.

### **Agency Response**

In its July 12, 2018, response, NRCS stated that it agrees with this recommendation:

NRCS will develop timeframes for each part of the CIG payment process to ensure that NRCS provides timely payments to grantees. For all new agreements starting in FY 2018, payment processing will take place through eZFedGrants. For those agreements, it is expected that valid payment requests will be processed in 2-3 days, with additional time needed to complete direct deposit into grantee accounts.

The estimated completion date is December 31, 2018.

### **OIG Position**

We accept management decision on this recommendation.

## **Recommendation 11**

Develop a system for tracking CIG payment requests to ensure payments are made within 30 days after receipt of the request.

### **Agency Response**

In its July 12, 2018, response, NRCS stated that it agrees with this recommendation:

NRCS stated, starting in FY 2018, all new agreements and payments will be managed and tracked through ezFedGrants. In the interim, NRCS will evaluate its current tracking mechanism for CIG payments and revise it as appropriate to ensure compliance with payment timeliness requirements in 2 CFR 200.

The estimated completion date is December 31, 2018.

## **OIG Position**

We accept management decision on this recommendation

## Section 2: NRCS' Controls Over the CIG Pre-Award Process

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### Finding 5: NRCS Needs to Improve the Conflict of Interest Policy

We found NRCS did not consistently document that staff participating in the review, selection, and approval of grants were free of any conflict of interest.<sup>29</sup> Furthermore, NRCS could not provide sufficient records to support that all the reviewing and approving officials were independent or that no conflict of interest was present during our review. This occurred because NRCS did not establish a policy for Technical Peer Reviewers to maintain the *Confidentiality and Non-Conflict of Interest* forms once signed. Nor did NRCS require the Grant Review Board or other approving officials to document their independence. NRCS stated that the current policy does not require the approving officials to complete these forms, nor does it require the forms to be maintained. As a result, NRCS approving officials could have a vested interest in the work conducted under CIG grants or in the recipients of the grants, which could influence their review and selection of grants.

According to Federal regulations, the awarding agency must establish conflict of interest policies for Federal awards.<sup>30</sup> NRCS' Technical Peer Review Evaluation guidance requires each reviewer to sign a *Confidentiality and Non-Conflict of Interest* form to serve as a technical peer reviewer. Additionally, the technical peer review evaluation guidance directs the peer review panel to recuse themselves from evaluating the proposal.<sup>31</sup> NRCS grant guidance states that the Grant Review Board must be independent of the applicants.<sup>32</sup>

Technical Peer Review panels are responsible for reviewing CIG proposals NRCS receives in response to the APF each fiscal year. Initially, there are two reviewers per proposal received, and these reviewers will review more than one proposal. The panel evaluates and ranks project proposals corresponding to their area of expertise using the evaluation criteria established in the CIG program APF. After the Technical Peer Review panel completes its evaluation, the proposals and rankings are sent to the Grant Review Board. The Grant Review Board certifies that the proposals are consistent with program objectives and makes its recommendations to the NRCS Chief for final award selection and funding decisions.

The panels may consist of NRCS and outside personnel, and participation varies from year to year. According to NRCS guidance, the review board must remain independent, and each Technical Peer reviewer is required to sign a *Confidentiality and Non-Conflict of Interest* form.

Upon review of the CIG files that we selected, we requested copies of the *Confidentiality and Non-Conflict of Interest* forms completed by the Technical Peer Reviewers for FYs 2014–16.

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<sup>29</sup> We were unable to quantify any noncompliance due to the inconsistency and lack of supporting documentation. Furthermore, conflict of interest documentation is not maintained within the individual CIG files as the review and approval process occurs in a general versus individual setting.

<sup>30</sup> 2 C.F.R. 200.112, dated Jan. 1, 2016; 2 C.F.R. 200.112, dated Jan. 1, 2015; and 2 C.F.R. 200.112, dated Jan. 1, 2014.

<sup>31</sup> NRCS Technical Peer Review Evaluation Guidance, for FYs 2014-16.

<sup>32</sup> NRCS Handbook Title 120-Administrative Services, Part 600–NRCS Grants and Agreements, Section 600.21, dated June 2013.

NRCS was only able to provide five forms for the FY 2016 panel, and none for FYs 2014 and 2015. Additionally, NRCS did not have any documentation to support that the Review Board members or approving officials, specifically the NRCS Chief, were independent, or that no conflict of interest was present during the scope of our review, potentially creating an appearance of partiality of approved grants. According to NRCS national officials, there is an expectation that board members and approving officials will recuse themselves if a conflict of interest exists. However, NRCS did not document this expectation and officials acknowledged that the absence of an official policy could be problematic. NRCS officials also stated that the Chief and Grant Review Board are not required to complete any forms. In addition to signing the *Confidentiality and Non-Conflict of Interest* forms, national officials stated that the peer reviewers are also asked to recuse themselves from discussion of the projects for which they may have a conflict of interest, or a perception of conflict of interest.

For the State CIG approval process, we found that the two State offices we visited did not have controls to ensure no conflict of interests existed. During our review of the State office CIG files, we found that conflict of interest forms were not maintained for FYs 2014-16 for officials generally reviewing and approving CIG proposals. According to one State official, they did not require their approving officials to complete the *Confidentiality and Non-Conflict of Interest Statement* form because NRCS policy does not require approving officials to complete this form; rather, approving officials are expected to recuse themselves if a conflict of interest exists. However, another State official said they relied on the annual Office of Government Ethics Form 450 Confidential Financial Disclosure Report instead of the NRCS *Confidentiality and Non-Conflict of Interest* form. We determined that NRCS State officials' understanding of the conflicts of interest requirements differs from State to State. Furthermore, decision makers, such as the State Conservationist, currently do not have written policy to ensure no conflicts of interest are present amongst approving officials at the State level for CIG. We concluded that the national office has not provided the States with clear guidance on documenting the absence of a conflict of interest for the CIG program.

Although we determined that NRCS could improve its conflict of interest policy, we did not conduct an additional review to determine whether any conflicts of interest existed with the 37 CIG files that we reviewed. NRCS officials agreed that some type of policy should be in place to document non-conflict of interest for their senior officials and stated that they plan to include the *Confidentiality and Non-Conflict of Interest* form in their newly created file management system.

Therefore, in order to minimize the risk of potential conflicts of interest and eliminate the appearance of conflict of interest, we recommend that NRCS needs to review and revise its existing policy to require all officials involved in the CIG administrative review and approval process at both the national and State levels to complete and submit a *Confidentiality and Non-Conflict of Interest Statement* form. Additionally, NRCS needs to ensure that sufficient documentation is maintained to support compliance with Federal regulations.

## **Recommendation 12**

Review and revise current policy to require all officials involved in the CIG administrative review and approval process to complete and submit a *Confidentiality and Non-Conflict of Interest Statement* form to comply with current Federal regulations concerning conflicts of interest policies for Federal awards.

### **Agency Response**

In its July 12, 2018, response, NRCS stated that it agrees with this recommendation:

NRCS agrees that its Confidentiality and Non-Conflict of Interest Policy, and the extent to which it is communicated to State offices, can be improved. As per 2 CFR 200, all reviewers of applications for Federal awards, but not selecting officials, are required to sign and submit Confidentiality and Non-Conflict of Interest Forms. Existing agency policy will be evaluated to ensure individuals involved in the CIG review process complete and submit Confidentiality and Non-Conflict of Interest Statement Forms in accordance with 2 CFR 200 Conflict of Interest policies for Federal awards.

The estimated completion date is October 1, 2018.

### **OIG Position**

We accept management decision on this recommendation.

## **Recommendation 13**

Update existing CIG policy to ensure that all completed non-conflict of interest forms are maintained for each panel review.

### **Agency Response**

In its July 12, 2018, response, NRCS stated that it agrees with this recommendation:

NRCS stated in September 2017, national CIG staff implemented a comprehensive new filing protocol for CIG documents. The peer panel Confidentiality and Non-Conflict of Interest forms are included in that protocol.

NRCS will review CIG processes and align CIG processes with those established for use of a standard confidentiality and non-conflict of interest statement, when the statement must be completed, and where the statement must be maintained.

The estimated completion date is October 1, 2018.

### **OIG Position**

We accept management decision on this recommendation.

## **Scope and Methodology**

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Our audit examined NRCS' oversight of the CIG program for FYs 2014–16. We performed our audit fieldwork at NRCS headquarters in Washington, DC; NRCS South Carolina State Office; NRCS California State Office; and two non-statistically selected national competition grantees. We performed our audit fieldwork from March 2017 through March 2018.

### **NRCS National Office Review**

We completed the following at the national level:

- Examined regulations and policies applicable to the CIG program to determine if NRCS' controls sufficiently ensured grantees used matching funds in proportion to grant funds and if grantees used funds in accordance with the grant agreements.
- Interviewed the appropriate NRCS officials to gain an understanding of the CIG grant selection process, reimbursement of CIG funds, and matching fund requirements.
- Selected a non-statistical sample of 27 nationally awarded CIGs for review. NRCS national officials provided a list of 138<sup>33</sup> nationally approved CIGs issued between FYs 2014 and 2016, totaling \$62.9 million. Using a random number generator, we non-statistically selected a 20 percent sample of awards from each fiscal year for review, or nine awards from each fiscal year. The 27 CIGs selected were awarded nearly \$11.4 million.
- Reviewed files for the 27 selected CIGs,<sup>34</sup> including the CIG applications and supporting documentation, such as reimbursement requests, financial reports, matching fund support, progress reports, etc., to assess NRCS monitoring of the CIG program.
- Non-statistically selected two national grantees, based on the number of CIGs and total awarded CIG funds, to visit in order to test NRCS controls and to determine if grantees adhered to the terms of the grant agreement.
- Conducted site visits to the two non-statistically selected national grantees and reviewed each grantee's supporting documentation for four awards for matching funds and reimbursement requests to ensure the recipient used funds for eligible purposes and in accordance with applicable regulations and grant agreements.

### **NRCS State Office Review**

We completed the following at the State level:

- Selected two States for review of the State office controls for managing the State CIG program. The national officials also provided data for the CIG State awards from FYs 2014–2016. The State offices awarded 129 CIGs totaling \$8.2 million. Based on the data, we selected the two states with the largest number of CIGs: California and

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<sup>33</sup> NRCS awarded 138 grants as follows: FY14—47; FY15—46; FY16—45.

<sup>34</sup> We reviewed 37 grants: 27 for National office; 4 grants for site visits; and 6 for State office.

South Carolina. These two States awarded 31 CIGs (16 in California and 15 in South Carolina) during FYs 2014–16 totaling more than \$2 million.

- Interviewed NRCS State officials in South Carolina and California to gain an understanding of their processes for administering the State CIG program, including the roles and responsibilities, policies and procedures, monitoring of the State’s CIG program by the national office, and conflict of interest procedures.
- Non-statistically selected six CIG files, or 20 percent, to review. We selected three grants in California and three grants in South Carolina based on the largest disbursement amount. We selected one grant from each of the three fiscal years in each State.
- Reviewed the files and interviewed State officials for the six selected grants to determine if: State CIG projects met the eligibility requirements, grantees met the matching fund requirements, CIG funds were expended for eligible program purposes and in accordance with applicable regulations and grant agreements, and State officials properly monitored each grant project.

The chart below demonstrates the total number and dollar value of CIG awards for the National and State competitions during our audit scope:

Fiscal Year	Number of Awards	Total Funds Awarded
2014	103	\$19.2 million
2015	80	\$22.8 million
2016	84	\$29.2 million

During the course of our audit, we did not solely rely on or verify information in any agency information systems, and we make no representation regarding the adequacy of any agency computer systems, or information generated by them because information systems were not used extensively throughout the program and evaluating the effectiveness of information system’s controls was not part of the engagement objectives.

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

## Abbreviations

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APF .....	Announcement for Program Funding
C.F.R. ....	Code of Federal Regulations
CIG.....	Conservation Innovation Grant
EQIP.....	Environmental Quality Incentives Program
FY .....	fiscal year
GASB.....	Grants and Agreements Services Branch
NRCS .....	Natural Resources Conservation Service
NTIS.....	National Technology Integration Subcommittee
OIG .....	Office of Inspector General
OMB .....	Office of Management and Budget
SF .....	Standard Form
USDA.....	United States Department of Agriculture

## Exhibit A: Summary of Monetary Results

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Exhibit A summarizes the monetary results for our audit report by finding and recommendation number.

<b>Finding</b>	<b>Description</b>	<b>Amount</b>	<b>Category</b>	<b>Recommendation</b>
1	Reimbursements to 35 grantees who did not adhere to the terms and conditions of the grant agreement.	\$4,366,090	Questioned Costs, Recovery Recommended	3
2	Inadequate records for matching funds requirement for awards at the national and State levels.	\$1,271,659	Unsupported Costs, Recovery Recommended	6
3	Inaccurate reporting to Congress as required by the 2014 Farm Bill.	\$7,891,453 <sup>35</sup>	Questioned Costs, No Recovery	9
<b>Total</b>		<b>\$13,529,102</b>		

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<sup>35</sup> The total amount awarded for State projects was over \$8.2 million. However, we questioned \$317,029 in disbursements in Finding 1.

**AGENCY'S  
RESPONSE TO AUDIT REPORT**





United States Department of Agriculture

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Date: July 12, 2018

SUBJECT: MGT - Response to the Office of Inspector General (OIG) Report 10099-0001-23, Controls Over Conservation Innovation Grants (CIG) Program for Recommendations 1-13

TO: Gil H. Harden  
Assistant Inspector General for Audit  
Office of Inspector General

File Code: 330-12

Attached are the Natural Resources Conservation Service's (NRCS) response to the OIG memorandum dated June 1, 2018, transmitting OIG's Report for Audit # 10099-0001-23, Controls Over Conservation Innovation Grants (CIG) Program.

OIG reviewed NRCS' oversight of the CIG program for fiscal years 2014 through 2016. OIG's oversight included determining if recipients used matching funds in proportion to CIG funds, and if CIG funds were used for eligible program purposes and in accordance with applicable regulations and grant agreements.

If you require additional information, please contact Mark Xu, Acting Deputy Chief for Strategic Planning and Accountability, at (301) 504-0056.

/s/

Leonard Jordan  
Acting Chief

Attachment

cc:/w attachment

Leslie Deavers, Acting Chief of Staff, Washington D.C.  
Leon Brooks, Director, Compliance Division, Beltsville, Maryland

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

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## **Agency Response to the Office of Inspector General (OIG) Audit Report 10099-0001-23, Controls Over Conservation Innovation Grants Program.**

During the review of CIG, the auditors noted that:

### **Finding 1: NRCS needs to improve its monitoring of the CIG Program.**

#### **Recommendation 1**

Review and revise existing policy for monitoring CIG projects at the national and State levels to include tracking receipt of performance reports and ensuring grantees have NRCS contracts available for assistance during the entire performance period.

#### **Agency Response**

NRCS agrees with the recommendation. NRCS will develop new policy for monitoring CIG projects at the national and State levels to include tracking receipt of performance reports and ensuring grantees have NRCS contracts available for assistance during the entire performance period of the award. The policy will address central receipt and consistent tracking of required reports across all agency program areas. Beginning in fiscal year (FY) 2018, new grantees will submit reports through ezFedGrants, the Farm Production and Conservation Business Center's system of record, which will allow administrative and technical contacts to easily access reports. It also provides a streamlined view of submitted deliverables to review prior to processing payments.

The following actions have already been taken to improve oversight of CIG grantees:

- 1) On October 1, 2017, NRCS instituted a procedure for accepting, filing, and recording submission of all required financial and progress reports for the CIG national component. Submission of reports is tracked using an excel spreadsheet database.
- 2) National CIG staff increased communication with grantees, including development of a New Grantee Guide that details report submission deadlines and procedures. NRCS established policy requiring CIG staff to send reminder emails as report submission deadlines approach, and then 2 weeks after the deadline to any grantees who have yet to submit their reports.
- 3) NRCS held a national meeting in February 2018 where national CIG staff described these program oversight improvements to all State CIG staff. States were directed to institute a procedure for tracking grantee reporting and improving reporting oversight, and they were offered support from national CIG staff in implementing their procedures.
- 4) National CIG staff increased communication with national component technical contacts, including issuing reminders that technical contacts need to notify CIG staff if they are unable to carry out their technical contact duties (through retirement, accepting another position, etc.).
- 5) NRCS instituted procedures for the 2018 grant cycle where National Discipline Leaders are responsible for managing the technical oversight of the awarded grants in their area of discipline. Improved communication between CIG staff, the National Discipline Leaders, and grantees will ensure that grantees are provided with excellent technical oversight for their projects.

Also, national CIG staff developed a variety of regularly occurring collaboration opportunities with State CIG staff. These interactions are leading to the development of shared tools, forms, regular communication updates, the use of a common SharePoint, and more uniform management of the program across the State components.

**Estimated Completion Date:** December 31, 2018

**OIG POSITION:** [Note: OIG will provide after NRCS submits agency response.]

**Recommendation 2**

Establish a process for withholding payments from grantees who violate the reporting terms and conditions outlined in the CIG grant agreement.

**Agency Response**

NRCS agrees with the recommendation. The agency will develop policy to establish a process for withholding payments from grantees who violate the reporting terms and conditions outlined in CIG agreements. Consideration will be given to the restrictions at 2 CFR 200.207 and 2 CFR 200.338, as well as the terms and conditions incorporated into agreement awards. New procedures will be put into place that ensure Grants and Agreements Specialists provide critical review of requests for reimbursement prior to forwarding to Program Managers for approval and Accounts Payable/Receivable for final processing. The new policy will include processes for rejecting requests for reimbursement if required deliverables (e.g., SF425) have not been submitted.

**Estimated Completion Date:** December 31, 2018

**OIG POSITION:** [Note: OIG will provide after NRCS submits agency response.]

**Recommendation 3**

Obtain and assess missing quarterly and semiannual reports from the 35 CIGs reviewed and determine if \$4,366,090 in CIG funds were paid appropriately, or if funds should be recovered. If CIG funds should be recovered, begin the recovery process.

**Agency Response**

NRCS disagrees with the recommendation. Grantee reporting is not the sole determinant of whether a payment request is processed. The contents of grantee reports and whether a payment is processed are not linked in NRCS policy. CIG staff and technical contacts monitor and provide oversight to projects outside of the required reports. When a payment request is submitted, NRCS staff analyzes the request and any supporting documentation. Based on this analysis alone, NRCS can determine that the payment request is valid and process the payment.

In addition, NRCS questions the methodology OIG used to derive the \$4,366,090 amount. In one case, the grantee had submitted seven out of the nine required reports, yet the entire amount (\$226,749) disbursed to that point to the grantee was flagged as potentially inappropriate. There are a number of similar cases in OIG's analysis. Beyond the previous explanation that the appropriateness of payments is not explicitly linked to report submissions, NRCS believes OIG's methodology overstates the amount of potentially inappropriate payments.

As stated in Recommendation 1, NRCS, on October 1, 2017, instituted a procedure for accepting, filing, and recording submission of all required financial and progress reports for the CIG national component, which will ensure that the agency does not find itself in a similar situation. Therefore, the agency considers this item complete.

**Estimated Completion Date: Already completed**

**OIG POSITION: [Note: OIG will provide after NRCS submits agency response.]**

**Finding 2: NRCS needs to improve its monitoring of matching funds.**

**Recommendation 4**

Develop a process to conduct and document periodic reviews of the grantees' records, at the national and State level, to verify third party matching contributions, i.e. cash and/or in-kind, obtained and utilized during CIG projects.

**Agency Response**

NRCS disagrees that a process to conduct and document periodic reviews of grantee records is necessary. The agency acknowledges that it needs to improve its oversight and verification of grantee matching funds, and believes it can accomplish this improvement through improved financial report reviews and improved outreach to grantees.

Grantees are required to report and certify (under penalty of law) the use of matching funds from all sources on their SF-425 financial reports. NRCS will improve its oversight of this reporting (including flagging and following up on potential discrepancies in the reporting of matching funds), as outlined in Recommendation 1, to help mitigate any current shortcomings. In addition, NRCS will improve its communications with grantees regarding maintenance of matching funds documentation, as described in Recommendation 5.

**Estimated Completion Date: Already completed**

**OIG POSITION: [Note: OIG will provide after NRCS submits agency response.]**

**Recommendation 5**

Reinforce the provisions of the terms and conditions in the CIG agreement relating to maintaining supporting documentation, including documentation for matching funds.

**Agency Response**

NRCS agrees and will reinforce the provisions of the terms and conditions requiring grantees to maintain supporting documentation in accordance with 2 CFR 200.333, including documentation for matching funds. Language will be added to the CIG New Grantee Guide, and content on matching funding documentation will be added to the CIG orientation for new grantees. Correspondence directly addressing this issue will be sent to all current CIG grantees.

**Estimated Completion Date: December 31, 2018**

**OIG POSITION: [Note: OIG will provide after NRCS submits agency response.]**

**Recommendation 6**

Ensure the identified \$1,271,659 of insufficiently supported matching funds is verified and reconciled. NRCS should take appropriate action where applicable.

**Agency Response**

NRCS agrees with the recommendation and will take steps to verify and reconcile the \$1,271,659 in matching funding noted by OIG. National CIG staff will collaborate with Grants and Agreements staff to complete this task.

**Estimated Completion Date: October 1, 2018**

**OIG POSITION: [Note: OIG will provide after NRCS submits agency response.]**

**Finding 3: NRCS needs to improve its oversight of the State CIG Program.**

**Recommendation 7**

Define the roles and responsibilities of the national office staff responsible for monitoring the State CIG program.

**Agency Response**

In July 2017, NRCS hired a new member of the CIG staff. This staff member's responsibilities include providing oversight and guidance for State CIG programs and staff. The staff member's duties are clearly defined in the position description and in annual performance plans. In addition to this new staff member, the Director of the Conservation Innovations Team has ultimate responsibility for providing programmatic oversight and guidance for State CIG programs and staff. Grants and Agreements Services Branch staff provide administrative support and oversight of State CIG programs.

Since early 2017, communication and the development of guidance for State CIG staff has increased markedly. State CIG staff from 47 States and Territories convened in-person in February 2018 for a 2-day operational workshop. This workshop was an important forum for communicating information and ideas on all aspects of administering the CIG program.

Following the conclusion of the workshop, regular communication between national and State CIG has continued.

**Estimated Completion Date: NRCS will submit a list of national CIG staff roles and responsibilities with respect to the State component by July 31, 2018.**

**OIG POSITION: [Note: OIG will provide after NRCS submits agency response.]**

**Recommendation 8**

Revise existing procedures requiring State offices to provide information on the State's CIG program to the national office annually. The updated procedures should detail the information the national office expects in each report to ensure accurate reporting to Congress.

**Agency Response**

NRCS agrees with the recommendation and plans to resume issuance of an annual national bulletin in October to capture critical information on projects funded by each State program.

**Estimated Completion Date: December 31, 2018**

**OIG POSITION: [Note: OIG will provide after NRCS submits agency response.]**

**Recommendation 9**

Ensure the December 2018 report to Congress includes CIG project funding and results from the State awarded CIGs to include current year and historical data omitted from prior reports, including, but not limited to the 129 CIG State awarded projects we identified totaling \$8.2 million.

**Agency Response**

NRCS agrees with the recommendation. NRCS will include information on the State component for FY 2014 forward.

**Estimated Completion Date: If required, the next congressional report will likely be due by December 31, 2018.**

**OIG POSITION: [Note: OIG will provide after NRCS submits agency response.]**

**Finding 4: NRCS needs to ensure payments are processed timely**

**Recommendation 10**

Develop policies that establish timeframes for each part of the CIG payment process from receipt and review of the payment request and supporting documents through submission of the application to the Accounts Payable Branch.

**Agency Response**

NRCS agrees with the recommendation and will develop timeframes for each part of the CIG payment process to ensure that NRCS provides timely payments to grantees. For all new agreements starting in FY 2018, payment processing will take place through eZFedGrants. For those agreements, it is expected that valid payment requests will be processed in 2-3 days, with additional time needed to complete direct deposit into grantee accounts.

**Estimated Completion Date:** December 31, 2018

**OIG POSITION:** [Note: OIG will provide after NRCS submits agency response.]

**Recommendation 11**

Develop a system for tracking CIG payment requests to ensure payments are made within 30 days after receipt of the request.

**Agency Response**

NRCS agrees with the recommendation. Starting in FY 2018, all new agreements and payments will be managed and tracked through ezFedGrants. In the interim, NRCS will evaluate its current tracking mechanism for CIG payments and revise it as appropriate to ensure compliance with payment timeliness requirements in 2 CFR 200.

**Estimated Completion Date:** December 31, 2018

**OIG POSITION:** [Note: OIG will provide after NRCS submits agency response.]

**Finding 5: NRCS needs to improve the conflict of interest policy**

**Recommendation 12**

Review and revise current policy to require all officials involved in the CIG administrative review and approval process to complete and submit a Confidentiality and Non-Conflict of Interest Statement form to comply with current Federal regulations concerning conflicts of interest policies for Federal awards.

**Agency Response**

NRCS agrees that its Confidentiality and Non-Conflict of Interest Policy, and the extent to which it is communicated to State offices, can be improved. As per 2 CFR 200, all reviewers of applications for Federal awards, but not selecting officials, are required to sign and submit Confidentiality and Non-Conflict of Interest Forms. Existing agency policy will be evaluated to ensure individuals involved in the CIG review process complete and submit Confidentiality and Non-Conflict of Interest Statement Forms in accordance with 2 CFR 200 Conflict of Interest policies for Federal awards.

**Estimated Completion Date:** October 1, 2018

**OIG POSITION:** [Note: OIG will provide after NRCS submits agency response.]

**Recommendation 13**

Review and revise current policy to require all officials involved in the CIG administrative review and approval process to complete and submit a Confidentiality and Non-Conflict of Interest Statement form to comply with current Federal regulations concerning conflicts of interest policies for Federal awards.

**Agency Response**

NRCS agrees with the recommendation. In September 2017, national CIG staff implemented a comprehensive new filing protocol for CIG documents. The peer panel Confidentiality and Non-Conflict of Interest forms are included in that protocol.

NRCS will review CIG processes and align CIG processes with those established for use of a standard confidentiality and non-conflict of interest statement, when the statement must be completed, and where the statement must be maintained.

**Estimated Completion Date:** October 1, 2018

**OIG POSITION:** [Note: OIG will provide after NRCS submits agency response.]

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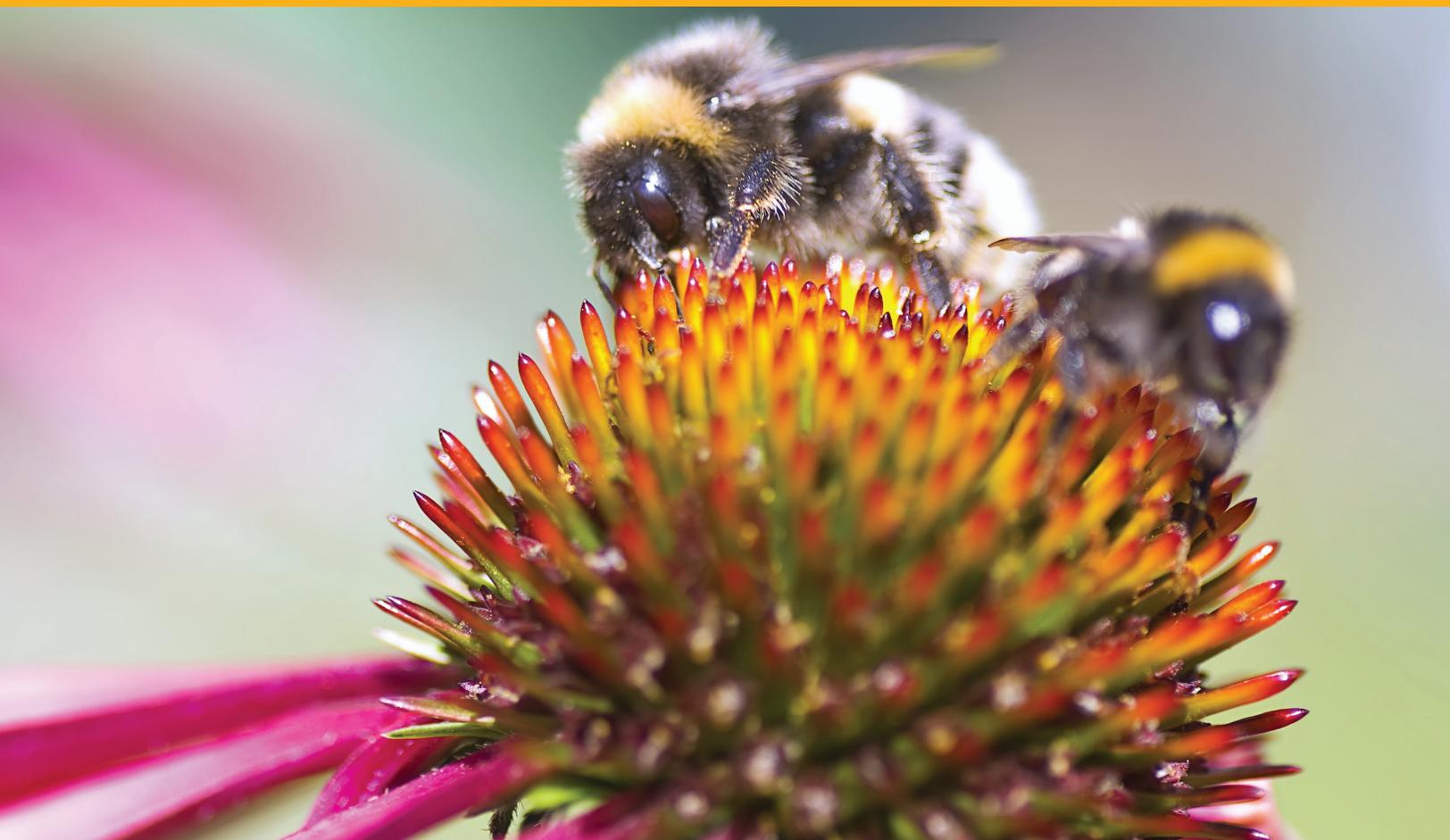
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