U.S. Department of Agriculture

Office of Inspector General
Great Plains Region

Audit Report

Natural Resources
Conservation Service
Environmental Quality Incentives Program

Report No. 10099-18-KC
February 2005

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250

DATE: February 28, 2005

REPLY TO
ATTN OF: 10099-18-KC

SUBJECT: Natural Resources Conservation Service - Environmental Quality Incentives Program

TO: Bruce I. Knight
Chief
Natural Resources Conservation Service

ATTN: Acting Director
Operations Management and Oversight Division

Summary

The Department of Agriculture's (USDA) Natural Resources Conservation Service (NRCS) defines its mission "to provide leadership in a partnership effort to help people conserve, maintain, and improve our natural resources and environment." NRCS' Environmental Quality Incentives Program (EQIP) was reauthorized in the Farm Security and Rural Investment Act of 2002 (Farm Bill) and provides a voluntary conservation program for farmers and ranchers that promotes agricultural production and environmental quality as compatible national goals. EQIP offers financial and technical help to assist eligible participants install or implement structural and management practices on eligible agricultural land.

Under EQIP, eligible participants may receive cost-shares up to 75 percent of the costs of certain conservation practices. Limited-resource producers and beginning farmers and ranchers may be eligible for cost-shares up to 90 percent. Incentive payments may be provided for up to 3 years to encourage producers to carry out management practices they may not otherwise use without the incentive. No incentive payments will be made for conservation practices eligible for cost-shares reimbursement. An individual or entity may not receive, directly or indirectly, cost-share or incentive payments that, in the aggregate, exceed $450,000 for all EQIP contracts entered into during the term of the Farm Bill.

We performed a review to assess the implementation of selected EQIP changes resulting from passage of the Farm Bill. This included determining the status of NRCS' actions to implement those changes, including the reasonableness of internal controls provided over the process. We found that the procedural changes made to the program as a result of the Farm Bill (signed in 2002) were implemented through a series of memorandums and bulletins issued by the NRCS National

office. The first changes to the Conservation Programs Manual were not issued formally until May 2004; however, draft copies of the manual were furnished to the NRCS State offices prior to that date. As a result, confusion existed among NRCS State and field office personnel as to whether the draft manual provisions should or could be implemented.

Our review also disclosed the existence of several program issues warranting further attention, including the review and oversight of locally developed ranking systems; adequacy of points awarded for “structural” versus “management” practices when ranking EQIP applications to prioritize funding; the status review process for management practices; beginning farmer and limited-resource producer designations; and controls over reimbursements made when the producers actually install the conservation practice.

Effective October 1, 2004, NRCS assumed total responsibility in providing financial and technical assistance for EQIP. In the past, these responsibilities were shared with the Farm Service Agency (FSA). In response to the migrations of these responsibilities, NRCS revised the Conservation Program Manual in October 2004. Therefore, we plan to reassess the program after NRCS has had the opportunity to assume total responsibility in providing financial and technical assistance and to implement the latest EQIP handbook.

Background

EQIP was reauthorized by the Farm Security and Rural Investment Act of 2002 (Farm Bill). The Federal Agriculture Improvement and Reform Act of 1996 had amended the Food Security Act of 1985 by including the original EQIP legislation. EQIP combines the functions of the Agricultural Conservation Program, Great Plains Conservation Program, Water Quality Incentives Program, and Colorado River Basin Salinity Control Program into a single program. The purpose of the EQIP is to optimize environmental benefits on private lands through local, State, and Federal partnerships.

EQIP offers contracts that provide incentive payments and cost-shares to implement conservation practices. Persons who are engaged in livestock or agricultural production on eligible land may participate in the EQIP program. EQIP activities are carried out according to an environmental quality incentives program plan of operations developed in conjunction with the producer that identifies the appropriate conservation practice or practices to address the resource concerns. The practices are subject to NRCS technical standards adapted for local conditions.

EQIP funding is allocated to States using national priorities. States subsequently allocate their share of available EQIP funds to conservation districts based on Statewide priorities. Conservation districts may, in turn, develop their own ranking systems to accommodate local conservation concerns and select contract applications for approval. The 2002 Farm Bill limits the total amount of cost-share and incentive payments available to an individual/entity to an aggregate of $450,000, directly or indirectly, for all contracts entered into during fiscal years (FY) 2002 through 2007.

EQIP provides technical assistance, cost-share payments, incentive payments, and education to producers who enter into 1 to 10-year contracts, based on the supporting conservation plans developed by NRCS and the producer. Program assistance is directed at farmers and ranchers facing the most serious threats to soil, water, air, and related natural resources. EQIP assistance is available to producers with agricultural land, grazing lands, wetlands, wildlife habitat, and forest land. EQIP also promotes producer compliance with Federal and State environmental laws and encourages environmental enhancement. Since 1997, USDA has entered into over 153,000 EQIP contracts, enrolled over 50 million acres, and obligated over $1 billion.

Two types of practices are available to eligible landowners to assist in the protection of soil erosion, water quality, land and water management, and environmental benefits. EQIP provides cost-share assistance not to exceed 75 percent of the cost for structural practices, such as grass waterways, filter strips, manure management facilities, capping abandoned wells, and wildlife enhancement. In addition, cost-share rates are available of up to 90 percent for beginning or limited resource farmers. EQIP also provides flat rate incentive payments on a dollar per-unit basis for up to 3 years to encourage the installation of land management practices, such as nutrient, manure, irrigation water, wildlife, and integrated pest management. For example, at one field office in Iowa, if a producer applied a residue management practice then he/she would be eligible to receive $10 per contracted acre for 1 year.

The EQIP application is based on assistance provided in the conservation planning process in conjunction with the producer. Specifically, EQIP activities are carried out according to an environmental quality incentives program plan of operations developed in conjunction with the producer that identifies the appropriate conservation practice or practices to address the resource concerns. The practices are subject to NRCS technical standards adapted for local conditions. EQIP applications are prioritized for funding using a locally developed ranking worksheet that generally considers which resources are to be treated and the location of the contract. Funded EQIP applications result in a contract that lists the practices to be applied along with an application schedule and Federal funds committed. The minimum contract length is 1 year after the implementation of the last scheduled practice with a maximum length of 10 years. Farmers may elect to use NRCS or a technical service provider for EQIP technical assistance.

EQIP participation is voluntary and contract applications may be submitted throughout the year. However, the ranking and approval process only occurs during designated periods. NRCS personnel develop conservation plans for those offered acres determined to be eligible for enrollment. Those plans specify the manner in which approved conservation practices will be developed, operated, and maintained on enrolled acres. NRCS personnel are also responsible for assisting landowners in establishing the approved practices on enrolled acreages.

On May 30, 2003, NRCS published the EQIP Final Rule in the Federal Register. The significant changes from previous rules included: (1) eliminating geographic priority areas, (2) allowing for expenditure of funds in the first year of the contract, (3) eliminating the cap on large confined livestock operations, (4) providing an overall payment limitation of $450,000 per producer, regardless of the number of farms or contracts over the authorized life of the Farm Bill,

(5) providing incentive payments for producers who develop comprehensive nutrient management plans (CNMP), (6) specifying contract length, as a minimum of 1 year beyond completion of the project (up to 10 years), (7) prohibiting the process of bidding-down (competitive cost-share reduction among program applicants), (8) changing the definition for limited-resource producers, (9) allowing up to 90 percent cost-share for beginning or limited resource farmers, (10) specifying that all livestock producers receiving funding for animal waste manure systems must have a CNMP, (11) evaluating applications for funding based on State and locally developed ranking procedures, and (12) specifying at least 60 percent of the funds for EQIP shall be targeted to livestock production practices, including grazing.

Objectives

The primary objective was to assess implementation of selected provisions of the EQIP legislation contained in the 2002 Farm Bill. To accomplish these objectives, we performed a limited assessment of the following areas: (1) adequacy, oversight, and documentation of locally developed application ranking systems, (2) adequacy of points awarded for enduring benefits associated with structural versus management practices, (3) effectiveness of the status review process for selected practices, (4) Beginning Farmer and Limited-Resource Producer provisions, and (5) limitations established for the labor portion of producer installed practices.

Scope and Methodology

We conducted the review at the NRCS National office located in Washington, D.C.; the NRCS State offices in North Carolina and Iowa; one NRCS area office in Iowa; and one NRCS field office in each State. The audit included interviews of program officials and reviews of pertinent program handbooks, bulletins, and other program documents available on the NRCS web site. We also reviewed supporting program records for a judgmental sample of 18 of 55 FY 2003 EQIP contracts approved by personnel at the two NRCS field offices included in our review. NRCS approved about 30,000 FY 2003 EQIP contracts. We also performed field visits to examine installed practices as needed.

The audit fieldwork was conducted from December 2003 through May 2004. We conducted the audit in accordance with Government Auditing Standards.

Details

The following provides a brief description of those issues where concerns arose during our review prior to the May 2004 issuance of the EQIP handbook.

Oversight of Locally Developed Ranking Systems

Our review of local ranking systems used by two NRCS field offices disclosed that the basis for various points awarded for applications reviewed was not clearly evident. NRCS used a “locally led” approach in determining the goals, needs, and ranking of individual requests for EQIP assistance. This meant that each field office or conservation district determined the ranking criteria and points awarded to their applications. We found that one field office did not have sufficient written instructions documenting the ranking criteria to aid in performing a consistent evaluation of the applications. Therefore, we were unable to assess the adequacy of the points awarded. The point determination essentially results in prioritizing the applications with those generating the most points being considered first for funding. We concluded that the locally developed ranking system used by the field office was vulnerable to inconsistent application due to individual interpretation and lack of adequate documentation.

For example, our attempts to validate the ranking scores assigned to the contracts reviewed required significant verbal input and assistance from field office personnel. Also, we found that several scoring changes were not adequately documented on the applications reviewed.

Also, National and State office personnel indicated that reviews were conducted of the field office ranking systems but we did not find documentation to support this effort. Because NRCS' determinations are made at the local level, an effective internal control and oversight process is needed to reduce the risk of inconsistent and unfair implementation of the EQIP.

Officials at the NRCS National office indicated that a template is under development to help ensure that local ranking systems meet the intent of the law and promote consistency in the ranking of individual requests for EQIP assistance.

Structural Versus Management Practice Requests and Limits

Our review of the ranking systems used by the two NRCS field offices disclosed the need for additional review of points assigned when scoring EQIP applications that include structural practices when compared to management practices. We found that one NRCS State office established a specified maximum amount of reimbursement per practice while the other NRCS State office reviewed did not. The points awarded to structural practices may not have provided sufficient points to differentiate these practices from management practices. This situation existed even though the structural practices were designed to provide enduring benefits, meaning that these practices would last longer than management type practices. As a result, the ranking systems may not adequately reward the installation of structural versus management practices.

Our review of the revised manual issued in October 2004 states that the, "Ranking process should give priority to practices that are likely to be retained for extended periods. Applications implementing cost effective practices that have longer service life should end up ranking higher than similar applications with shorter service life practices. In most cases, this will result in optimizing environmental benefits."

Also, our review identified differences in administration of the management practice provisions at the State level. For example, personnel at the North Carolina NRCS State office established a lifetime "cap" of $15,000 per farming enterprise for the "nutrient management" practice. North Carolina State office personnel advised us that the intent of payments for various management practices such as nutrient, pest, and residue management was to provide sufficient incentive for producers to adopt such practices for remaining acres not covered by the EQIP. However, this limitation or cap was not established in Iowa. As a result, inconsistent approaches and limitations can subject the agency to criticism.

Status Review Process for Management Practices

Our review also disclosed that the assessment completed for a status review analysis may be limited with respect to certain types of EQIP practices. NRCS personnel advised us that the application of "nutrient management" practices could not be physically observed when conducting a status review. Therefore, NRCS personnel relied on the integrity of supporting documentation furnished by producers even though it could be easily manipulated. Some NRCS officials commented that incentive payments for management practices were not scrutinized because field visits were not necessary and evidence required to be submitted did not specify items such as location, amounts, quantities, applicators, and person performing the work.

The status review process is a key internal control to ensure practices are properly applied and meet the goals of both the producer and the USDA. Therefore, status reviews should require sufficient information to determine whether the practices were performed and if not, appropriate corrective actions are taken or payments are recovered when deficiencies are found.

Beginning Farmer and Limited-Resource Farmer Designations

The use of "beginning farmer and limited-resource producer" limitations for reimbursement varied by State and was made in ways that may bring criticism to the NRCS and USDA. These designations generally mean an increase in the cost-share rate (up to 90 percent) that participants are eligible to receive. Also, NRCS currently allows applicants to self-certify that they meet the criteria. NRCS provides that they will check 5 percent of these certifications annually. In this situation, a producer certification is the only factor for obtaining a higher cost-share reimbursement.

A limited-resource producer has the following characteristics: A person with direct or indirect gross farm sales not more than $100,000 in each of the previous 2 years and has a total household income at or below the national poverty level for a family of four, or less than 50 percent of the county median household income, in each of the previous 2 years. A beginning farmer is defined as a person who has not operated a farm or ranch, or who has operated a farm or ranch for not more than 10 consecutive years and will materially and substantially participate in the operation of the farm or ranch. See the attachment for this certification on the EQIP application/contract.

We found that limited-resource producers and beginning farmers in Iowa may be eligible for a higher cost-share percentage, not to exceed 75 percent cost-share for the first $50,000 of EQIP funding. However, we found that North Carolina did not provide a 75 percent limit; therefore, producers could qualify for a 90 percent cost-share. If a producer in North Carolina certified to being a limited-resource producer, he/she would have received 90 percent cost share on the number of contracted acres. If this producer's operation had been located in Iowa, he/she would have been limited to only 75 percent cost share on those same acres.

Controls Over Producer Installed Practices

EQIP allows producers to contract with installers or to install their own practices. When a producer installs his/her own conservation practices, our review disclosed that a critical control over in-kind contributions for labor (the producer sharing in costs) was not in place when the producers installed the practice themselves. We found that producers were allowed to determine their own hours worked and labor rates. Therefore, producers could overestimate the hours and rates needed and essentially recover all out-of-pocket expenses. In prior programs, NRCS established maximum hours and rate thresholds for work completed by the producers for practices approved. We did not find these maximums were used in the two field offices reviewed.

In October 2004, NRCS assumed total responsibility in providing financial and technical assistance for EQIP. NRCS also issued the revised Conservation Program Manual formally implementing substantial changes to EQIP. Although the revised Conservation Program Manual does not appear to adequately address many of the above-cited concerns, we plan to delay further work on EQIP until your agency has had an adequate opportunity to implement many of these program changes. We believe that this interim delay in our review would provide NRCS an opportunity to possibly address, clarify, and resolve the concerns cited in this letter report. Therefore, no reply to this report is necessary.

We appreciate the courtesies and cooperation extended to us by you and your staff during this review.

/s/
ROBERT W. YOUNG
Assistant Inspector General
for Audit

Attachment

OMB No. 0578-0013

CCC-1200 7/2003	U.S. DEPARTMENT OF AGRICULTURE COMMODITY CREDIT CORPORATION	1. State & County Code	
		2. a. Farm Number(s)	
		b. Tract Number(s)	
		3. Contract Number	
		4. Primary Fund Code	
		5. HUA Number	
CONSERVATION PROGRAM APPLICATION/CONTRACT		6. Total Treated Acres	

THIS is an APPLICATION to participate in the:

7. PROGRAM (Check One)	a. Agricultural Management Assistance Program (AMA)		b. Conservation Security Program (CSP)		c. Environmental Quality Incentives Program (EQIP)	

On the farm identified above the Applicant agrees to participate in the identified program if the offer is accepted by Commodity Credit Corporation (CCC). The undersigned person shall hereafter be referred to as "the Applicant." The Applicant understands that starting a practice prior to CCC approval causes the practice to be ineligible for program financial assistance and the applicant will obtain the landowners signature on the contract to install structural practices. **By signing this application, the applicant acknowledges, receipt of the following forms: CCC-1200, the ccc-1200 appendix and any addenda thereto, which are incorporated by reference herein and made a part of the contract.**

SIGNATURE OF APPLICANT DATE
(signature of individual or authorized representative of entity or joint operation)

7a. Limited Resource Producer and Beginning Farmer Certification

I ______________________ certify that I am a: ☐ **LIMITED RESOURCE PRODUCER(EQIP);**

☐ **BEGINNING FARMER/RANCHER (EQIP, CSP),** as per the following guidelines:

Limited Resource Farmer or Rancher:
A Limited Resource Farmer or Rancher has the following characteristics:
(a) A person with direct or indirect gross farm sales not more than $100,000 in each of the previous two years (to be increased starting in FY 2004 to adjust for inflation using Prices Paid By Farmers Index as compiled by NASS),
and
(b) Has a total household income at or below the national poverty level for a family of four, or less than 50 percent of county median household income (to be determined annually using Commerce Department Data), in each of the previous two years.
An entity or joint operation can be a Limited Resource Producer if all individual members qualify as a Limited Resource Producer.

Beginning Farmer or Rancher:
(a) Has not operated a farm or ranch, or who has operated a farm or ranch for not more than 10 consecutive years. This requirement applies to all members of an entity, and
(b) Will materially and substantially participate in the operation of the farm or ranch.
(i) In the case of a contract with an individual, individually or with the immediate family, material and substantial participation requires that the individual provide substantial day-to-day labor and management of the farm or ranch, consistent with the practices in the county or State where the farm is located.
(ii) In the case of a contract made with an entity, all members must materially and substantially participate in the operation of the farm or ranch. Material and substantial participation requires that the members provide some amount of the management, or labor and management necessary for day-to-day activities, such that if the members did not provide these inputs, operation of the farm or ranch would be seriously impaired.

NOTE: All applicants that certify eligibility as a Limited Resource Farmer or Rancher or Beginner Farmer or Rancher will provide all records necessary to justify their claim as requested by a CCC representative. **It is the responsibility of the applicant to provide accurate data. False certifications are subject to criminal and civil fraud statutes.**

Signature Date

8. Contract Language

THIS CONTRACT is entered into between the Commodity Credit Corporation (referred to as "CCC") and the undersigned owners, operators, or tenants (referred to as "Owner, "Operator", & "Tenant"; respectively) on the farm identified above. The undersigned person or persons shall hereafter be referred to as "the Participant". The Participant agrees to participate in the program designated in Section 7 from the date the Contract is executed by CCC to the contract expiration date in Section 9. The Participant also agrees to implement the plan of operations developed and approved by the Participant and CCC. Additionally, the Participant and CCC agree to comply with the terms and conditions contained in this Contract, including the appendix to this Contract, entitled "Appendix to Form CCC-1200" for the applicable program (referred to as "Appendix"), and any other addenda thereto. The Participant also agrees to pay such applicable liquidated damages in an amount specified in the Appendix for the applicable program if the Participant cancels the agreement before the contract expires or the CCC terminates the contract.

Continued on next page

Attachment

Informational copies of this report have been distributed to:

Chief, NRCS	
Attn: NRCS Liaison Officer	(10)
Government Accountability Office	(1)
Office of the Chief Financial Officer	
Director, Planning and Accountability Division	(1)
Office of Management and Budget	(1)