



U.S. Department of Agriculture

Office of Inspector General



**Natural Resources Conservation Service –
Emergency Disaster Assistance: Emergency
Watershed Protection Program**

**Audit Report 10601-6-KC
March 2011**



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



DATE: March 30, 2011

AUDIT
NUMBER: 10601-6-KC

TO: Dave White
Chief
Natural Resources Conservation Service

ATTN: Lesia Reed
Deputy Chief
Strategic Planning and Accountability

FROM: Gil H. Harden /s/
Assistant Inspector General
for Audit

SUBJECT: Natural Resources Conservation Service - Emergency Disaster Assistance:
Emergency Watershed Protection Program

This report presents the results of our audit of the Emergency Watershed Protection Program. Your written response, dated March 2, 2011, to the official draft report is included at the end of this report. Excerpts from your response and the Office of Inspector General's position are incorporated into the relevant sections of the report.

In the written response to the official draft report, the agency concurred with the findings and recommendations in the report. Based on your response, we have reached management decision on all recommendations as presented.

In accordance with Departmental Regulation 1720-1, final action needs to be taken within 1 year of each management decision to prevent being listed in the Department's annual Performance and Accountability Report. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

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

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Natural Resources Conservation Service - Emergency Disaster Assistance: Emergency Watershed Protection Program

Executive Summary

In the wake of extensive flooding in the Midwest and hurricanes in the Gulf region during 2008 and ice storms in Kentucky in early 2009, the Natural Resources Conservation Service (NRCS) received supplemental appropriations of about \$490 million to implement provisions of the Emergency Watershed Protection (EWP) Program. The funds were used to restore channels, remove debris, stabilize stream banks, and repair levees in the affected States. The Office of Inspector General (OIG) initiated this audit to: (1) evaluate the sufficiency of corrective actions taken in response to our prior audit findings and recommendations related to disaster assistance; (2) assess the effectiveness of NRCS' program delivery with respect to the agency's response to the Midwestern floods, Gulf Coast hurricanes, and Kentucky ice storms in Kentucky; and (3) evaluate the adequacy of management controls over program administration to prevent and minimize improper payments and fraud. OIG conducted this audit in conjunction with two reviews¹ of the Farm Service Agency's Emergency Conservation Program. These three audits examined the respective agencies' relief efforts in the aftermath of natural disasters in 2008 and early 2009.

To make our assessment, we judgmentally selected six States that together received about \$207.2 million in EWP Program funds, or 45 percent of the \$461 million total allocated to States for the EWP Program.² These 6 States were Indiana, which received \$10.4 million; Iowa, which received \$23.9 million; Kentucky, which received \$19.7 million; Louisiana, which received \$48.6 million; Missouri, which received \$51.4 million; and Texas, which received \$53.2 million. In these 6 States, we selected and reviewed 40 (or 18 percent) of a total of 225 EWP Program agreements. In Indiana, Iowa, and Missouri, we reviewed agreements for assistance in repairing flood damage; in Louisiana and Texas, agreements for assistance in hurricane recovery efforts; and in Kentucky, agreements for ice storm recovery efforts.

Overall, we determined that NRCS successfully administered the EWP Program. We did not note any exceptions regarding the priority in which projects were funded, or with the establishment of payment rates as previously identified in our report on the EWP Program,³ and we concluded that NRCS generally administered the EWP Program effectively in the aftermath of these natural disasters. Within each State, we found that NRCS management controls were in

¹ Audit Report 50601-16-KC, *Emergency Disaster Assistance for 2008 Floods, Emergency Conservation Program*, and Audit Report 03702-1-Te, *Emergency Disaster Assistance for Natural Disasters: Emergency Conservation Program*, issued September, 2010.

² Of the remainder of the \$461 million, approximately \$181.8 million was allocated to the other States for restoration and rehabilitation projects and \$72 million was allocated to States for flood plain easement purchase purposes. This review was limited to EWP restoration and rehabilitation projects.

³ Audit No. 50601-12-KC, *Hurricane Relief Initiatives, Emergency Watershed Protection Program and Disposal of Dead Animals*, issued October 2007.

place and functioning as intended to identify eligible sponsor entities⁴ and watershed project areas, to solicit bids and award contracts, and to inspect and verify the completion of funded projects. Our audit of selected projects supported the priority designations assigned as well as confirmed the completion of contract work where applicable. Nothing came to our attention during the audit that caused us to believe the system of management controls over EWP Program disaster activities was not adequate.

However, we did note that costs for technical services (i.e., project design and construction oversight) were reimbursed and accounted for inconsistently from one State to another. We found that program regulations and the provisions from the program's procedural handbook were ambiguous or inconsistent on how technical services provided by sponsors were to be accounted for and reimbursed. The NRCS Headquarters had not taken action to remedy the problems with policy and operational procedures that it identified in a June 2008 internal assessment of the EWP Program, and Headquarters allowed States to deviate from the procedures in the EWP Program manual regarding the reimbursement of sponsors for technical services they provided for their projects. NRCS Headquarters decided to not issue interim guidance pending a rewrite of the EWP manual, and believed the current manual was sufficient pending the rewrite. The differences impacted the amount of reimbursement that sponsors received from one State to another, as well as how these costs were classified and accounted for in NRCS's financial accounts. Furthermore, NRCS's financial accounts were overstated or understated for the amounts of credit or reimbursements to compensate sponsors for the technical assistance services they provided.

The EWP Program manual requires State offices to reimburse sponsors for technical services from their accounts for technical assistance.⁵ However, we identified one State office that was including those costs for construction cost-sharing purposes and, therefore, reimbursed the sponsor for a percentage of these technical services costs from its account for financial assistance.⁶ We noted a number of differences among State offices, for example, one State office reimbursed sponsors for 100 percent of the technical services costs that the sponsors incurred, and charged those costs to the accounts for technical assistance. Another State office did not reimburse sponsors for any of the sponsors' expenditures for technical services. Yet another State office reimbursed sponsors on a 75-percent basis for their costs incurred for technical services—on the grounds that these services constituted part of the sponsors' cost-sharing contribution—and charged those costs to the accounts for financial assistance. Headquarters personnel stated that they had organized a program policy team to make recommendations to management for changes in the EWP Program manual regarding the processing of sponsor-provided technical assistance. Those changes would then be provided to State and field offices when the EWP Program manual was updated.⁷

⁴ A sponsor is a State agency or subunit thereof; a Native American tribe or tribal organization; or a local government with a legal interest in, or responsibility for, the areas threatened by a watershed emergency.

⁵ Technical assistance funds are used for items such as salaries of NRCS employees; travel; and services such as design, inspection, administration, and contracting services.

⁶ Financial assistance funds are used to fund the cost of constructing the recovery measure; for example, removing debris from stream channels, restoring stream banks, re-building water control structures.

⁷ In November 2010, NRCS issued its amended EWP manual. However, the manual did not include the proposed sections related to the processing of sponsor-provided technical assistance.

During our review, we also identified non-systemic errors totaling \$18,075, such as calculation errors, failure to allow full value for a sponsor-provided piece of construction material, and failure to request the necessary waiver from NRCS Headquarters for repairs to a levee that serviced a watershed exceeding 400 square miles. NRCS personnel addressed these errors during our audit. Because the errors were non-systemic and were promptly addressed, we are not making any recommendations for corrective actions in this report regarding those errors.

Recommendation Summary

We recommend that NRCS immediately implement corrective actions to resolve the conditions that we identified regarding State offices' handling of and accounting for technical assistance costs. We also recommend that NRCS determine the extent of incorrect charges to technical assistance and financial assistance accounts and take appropriate actions to correct the charges.

Agency Response

In its March 2, 2011, response to the official draft report, NRCS agreed with the findings and recommendations and provided information on corrective actions planned and underway. The NRCS written response to the official draft report is included at the end of this report with excerpts and the Office of Inspector General's (OIG) position incorporated into the relevant sections of the report.

OIG Position

Based on NRCS' response, we accept management decision on the two recommendations in this report.

Background & Objectives

Background

In the aftermath of natural disasters including, but not limited to, floods, fires, hurricanes, tornadoes, and drought, the EWP Program helps remove threats to life and property that remain in the Nation's watersheds. NRCS administers⁸ the EWP Program on State, tribal, and private lands by providing technical and financial assistance for reducing the effects of watershed impairments.⁹ Impairments include, but are not limited to, debris-clogged stream channels, undermined and unstable stream banks, jeopardized water control structures and public infrastructure, and damaged upland sites stripped of protective vegetation by fire or drought. If these watershed impairments were not addressed, they would pose a serious threat of injury, loss of life, or devastating property damage should a subsequent natural disaster occur.

The EWP Program is typically funded by Congressional supplemental appropriations. These appropriations are allocated to States which then account for the funds with two accounting fund classifications. Financial assistance funds are used for the construction of the recovery measures. Technical assistance funds are for items such as salaries of NRCS employees, travel, and services such as design, inspection, administration, and contracting activities.¹⁰ As of July 31, 2009, the \$461 million in allocations consisted of approximately \$389 million in financial assistance funds and \$72 million in technical assistance funds.

For projects to restore a watershed's natural functions, NRCS makes assistance available on State, tribal, and private land through project sponsors, which must be a State agency or subunit thereof; a qualified Native American tribe or tribal organization; or a unit of a local government. Private entities or individuals may receive assistance only through sponsorship by a government unit. NRCS requires that sponsors contribute a portion of the costs to repair the damage. In most cases, sponsors must provide at least 25 percent of the funding; in areas where resources are limited, sponsors must provide at least 10 percent of the funding. The community or local sponsor can provide its cost-sharing contribution in cash or through in-kind services.

After a sponsor identifies a watershed impairment, an NRCS team—consisting of an engineer, a biologist, and a resource conservationist—performs an assessment of the impairment. The team evaluates the potential threat to health, life, or property that the impairment presents and estimates the cost to restore the watershed back to pre-damage conditions. The design and contracting of work to relieve the threats are performed by NRCS and/or the sponsors, and approved by NRCS personnel, where the sponsor conducts the design and/or contracts for the construction processes.

⁸ Authorized by Section 216 of the *Flood Control Act of 1950* (Public Law (P.L.) 81-516) and Section 403 of the *Agricultural Credit Act of 1978* (P.L. 95-334), as amended by Section 382 of the *Federal Agriculture Improvement and Reform Act of 1996* (P.L. 104-127).

⁹ NRCS administers EWP recovery measures through the regulations in 7 Code of Federal Regulations (CFR) 624, established by the final rule on April 4, 2005. Specific procedures appear in NRCS Manual Title 390, *National Emergency Watershed Protection Program*.

¹⁰ EWP Manual Section 501.12.C, October 2006.

In 2008, Congressional supplemental appropriations allocated a total of \$490 million in EWP Program funds. A supplemental appropriation bill (Public Law 110-252¹¹) that helped States with areas ravaged in 2008 by flooding and hurricanes provided \$390 million of this amount. The remaining \$100 million came from an additional appropriation to the EWP Program that was made on September 30, 2008 (Public Law 110-329¹²). As of November 30, 2010, NRCS Headquarters had allocated approximately \$484.5 million of the \$490 million to States, with \$5.5 million not yet allocated. NRCS can allocate the remainder of the funds to supplement current requests in the event States' initial estimates were low, or they can be used for future requests.

In our audit of EWP Program administration in the aftermath of the 2005 Hurricanes Katrina and Rita,¹³ we found that NRCS did not direct initial EWP Program funds to the highest-priority projects across the entire disaster area and that the agency did not base its payment rates on the required amount of work performed. We recommended that NRCS evaluate the use of program funding across multiple State disaster areas to ensure that available funding can be put to the highest or best use. In response to our recommendations, NRCS notified all State Conservationists of the requirement to use Damage Survey Reports to prioritize sites within their States and for prioritization of multi-State disaster events. In that audit report, we also reported that at the State level, NRCS management controls were in place and functioning as intended to identify eligible sponsor entities and watershed project areas, solicit bids and award contracts, and inspect and verify completion of EWP Program projects.

Objectives

We evaluated whether the NRCS State offices in the affected States put the allocated EWP Program funding to the best use to meet the program's purpose. In pursuing this objective, we evaluated how effectively NRCS delivered the EWP Program and the adequacy of NRCS' management controls over administration of the program, and assessed the reasonableness of the program's reimbursements, including minimizing improper payments and fraud. This included assessing the impact of any waivers or revised procedures on the payments made. We also followed up to evaluate the sufficiency of corrective actions taken in response to our findings and recommendations from our previous audit related to disaster assistance.

¹¹ *The Supplemental Appropriations Act of 2008* provided the U.S. Department of Agriculture with extensive supplemental funding for disaster relief to individuals and communities affected by hurricanes and floods that year.

¹² *Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, 2009*.

¹³ Audit Report 50601-12-KC, *Hurricane Relief Initiatives, Emergency Watershed Protection Program and Disposal of Dead Animals*, issued October 2007.

Section 1: Corrective Actions Needed to Ensure Equal Treatment to Sponsors

Finding 1: NRCS Needs to Implement Corrective Actions to Resolve Disparities Among State Offices in Handling of Sponsors' Technical Assistance Costs

Because of the inconsistency between the program regulations and the program manual—and the ambiguity of the provisions in each—regarding how to account for and reimburse for the costs of technical services for projects, three State offices processed these technical costs differently. NRCS had identified these reimbursements and financial accounting inconsistencies in a 2008 internal assessment of the program, but NRCS Headquarters decided to not issue interim guidance pending a rewrite of the EWP manual, and believed the current manual was sufficient pending the rewrite. NRCS has continued to allow each State office to process the costs, credits, and reimbursements for technical services in its own manner, rather than requiring a uniform system across States. The disparity in methods of accounting and reimbursement among States has resulted in disparate reimbursement amounts among sponsors as well as overstated or understated technical assistance costs being reported and recorded for financial reporting. Because of the inconsistency among States in handling reimbursements and credits, some States have more technical assistance funds available than they might have otherwise.

Regulations for the EWP Program¹⁴ state that sponsors can provide technical assistance services like design, surveys, contract administration, and construction inspection as in-kind services toward their project cost-sharing requirement as determined by the State Conservationist. However, the regulations do not address direct cash reimbursements made to sponsors by State offices for technical assistance services.

In contrast, NRCS' EWP Program manual states that in cases where sponsors perform work that is typically a responsibility of NRCS, the sponsors should be reimbursed for those technical services costs. In those cases, NRCS is to work with the sponsors to establish the reimbursable amount based upon the availability of technical assistance funds. The manual gives examples of technical assistance services typically completed by NRCS, including planning, design, inspection, and administrative and contracting activities.¹⁵

In June 2008, NRCS published an internal assessment regarding the use, benefits, and risks of sponsor-led EWP Program projects as compared with those led solely by NRCS. One of the issues reported in the assessment was that the EWP Program manual was more restrictive than the EWP Program regulations on what services or products sponsors can provide to receive credit towards meeting their non-Federal cost-sharing requirements. The assessment determined that EWP Program regulations state that a sponsor can provide technical assistance services (e.g., designs, surveys, contract administration, and construction inspection) as in-kind services

¹⁴ *Emergency Watershed Protection: Program Administration*, 7 CFR 624.6 (a)(2)(i)(b), January 1, 2006.

¹⁵ EWP Manual Section 501.6.F, October 2006.

towards meeting its cost-sharing requirements. However, the EWP Program manual states that sponsors can receive cost-sharing credit only for in-kind services related to construction (materials, labor, or equipment). The manual does state that the sponsors should be reimbursed for providing technical assistance services, but states that payment should be charged to the technical assistance funding allocation instead of the financial assistance funding allocation.

The NRCS internal assessment reported that three of four States visited as part of the review were not following EWP Program manual requirements and had allowed sponsors to count the value of their technical assistance services toward their 25-percent cost-sharing requirement, but did not make any technical assistance funds available for reimbursing sponsors for these costs. The assessment pointed out that if State offices use financial assistance funds to pay a sponsor for technical assistance services, these reimbursements are included within the total financial assistance funds that NRCS agrees to obligate to the sponsor for construction. This has the effect of increasing NRCS' share of project costs in excess of the 75-percent limitation and also results in an increase in technical assistance funding available to NRCS State offices.

This, the assessment concluded, puts the agency at risk where State offices effectively transfer the technical assistance services to sponsors in sponsor-led projects but retain the funds for these technical assistance services within NRCS. The assessment recommended that the EWP Program manual be modified to make program administration clear and consistent throughout all State offices.

Our audit confirmed the NRCS internal assessment's observation that State offices were using both financial assistance and technical assistance funds for reimbursing sponsors for sponsor-provided technical services. As a result, the reimbursement that sponsors received for technical service costs they incurred varied among States. For example:

Iowa: The Iowa State NRCS Office initially reimbursed sponsors from financial assistance funds for sponsor-provided technical services. It based this reimbursement method, in part, on an e-mail from NRCS Headquarters that clarified that the term "construction costs"¹⁶ as used in the final rule was the equivalent of the term "total project costs"¹⁷ used in the EWP Program manual. During our audit, in response to our discussions with NRCS Headquarters about the method the Iowa State NRCS Office was using to calculate cost shares, the State office changed its EWP reimbursement process to reimburse sponsors up to 8 percent of the costs for the construction portion of the repair for technical services from technical assistance funds.

Indiana: NRCS provided technical services itself for over 90 percent of its EWP Program agreements in Indiana. As a result, the sponsors incurred no net costs for technical services. Sponsor-provided technical services were either (1) reimbursed from technical assistance funds for all expenses incurred, or (2) reimbursed from technical assistance funds on a "not to exceed" basis—that is to say, reimbursed up to the amount

¹⁶ 7 CFR 624.7(a), January, 2006.

¹⁷ Total project costs are defined as the total costs of installing a recovery measure.

of the NRCS-allocated technical assistance funds minus the direct costs that NRCS State and field office personnel charged to the technical assistance account. According to State office personnel, there were two projects with this type of agreement. In both cases, NRCS did not have the technical expertise to properly design the repairs, so it was necessary for the sponsor to do the design.

Missouri: In Missouri, NRCS field personnel—rather than sponsors—handled project design, oversight, and other technical responsibilities. As a result, the sponsors incurred no costs for the NRCS-rendered technical services, and NRCS charged the technical assistance fund for the costs.

We reviewed payments made in three sampled projects in Iowa in order to determine the effect of including technical services in the total expenses for cost sharing and the effects on the technical assistance and financial assistance accounts. Our analyses showed that including the technical assistance expenses in the financial assistance cost-sharing resulted in a net increase in costs to the sponsors of approximately \$7,400 in comparison to having the costs of the services fully reimbursed under technical assistance. For example, one project agreement was for \$38,649, which was paid for by the sponsor. The Iowa State NRCS Office reimbursed the sponsor a total of \$28,987 (75 percent of \$38,649 times) from financial assistance funds. In coordination with Iowa State NRCS Office personnel, we reviewed the expense documentation provided by the sponsor and identified technical assistance service costs of \$4,590. If these costs had been reimbursed using technical assistance funds, the total reimbursement to the sponsor would have been \$30,134—\$4,590 for technical assistance services, drawn from technical assistance funds, plus \$25,544 drawn from financial assistance funds. (This figure of \$25,554 is 75 percent of \$34,059—the project agreement cost of \$38,649 minus \$4,590, the value of the technical assistance services.) Additionally, this resulted in the reimbursement to the sponsor from financial assistance funds exceeding the 75-percent cost share limitation by \$3,433 (\$28,987 actually reimbursed, less \$25,554 the maximum reimbursement amount from financial assistance funds). As a result, the sponsor would have received an additional \$1,148 in reimbursement and the available balance of the State office’s technical assistance funds account would have been reduced by \$4,590.

The effect on the State’s technical assistance and financial assistance account balances was that \$4,590 of technical assistance expenses were used in determining financial assistance reimbursement, thereby overstating the reimbursement using these financial assistance funds by \$3,433. The State’s technical assistance and financial assistance fund balance would be misstated by \$4,590 for this one project. For the three projects reviewed, the technical assistance and financial assistance accounts were impacted by a total of \$29,777. It was not practical for us to measure the impact this condition had on these cited States’ financial assistance and technical assistance accounts because at the time of our review, not all agreements had been obligated and completed with reimbursements paid and applicable accounting entries completed. Until all affected State offices have charged the technical assistance funds, all agreements have been paid for and completed, and all applicable accounting entries have been posted, we cannot render a conclusion on the total impact this condition has on the agency’s financial assistance and technical assistance accounts overall.

NRCS Headquarters personnel stated they were aware of the cited issues and are addressing them in updates to the EWP Program manual. NRCS Headquarters also informed us that a revised EWP manual has been submitted for publication through the e-directives system. Iowa State NRCS Office personnel said they tried to follow the provisions of the regulations even though they were different from the EWP Program manual requirements.

Recommendation 1

Immediately implement corrective actions to resolve the identified conditions regarding State offices' reimbursing, accounting, and reporting of technical assistance costs incurred by the sponsors.

Agency Response

NRCS officials concurred with this recommendation and will issue an addendum to the States with guidance on how to address the technical assistance portion of the sponsor's cost share. For accuracy of the EWP cost-share program and to ensure that it is administered properly and consistently across State lines, the cost-share guidance for Part 511.6 (E) of the policy manual will mirror 7 CFR 624.6 (a) in its entirety. NRCS will revise the cost-share policy manual to mirror the regulation. NRCS will also address this issue at the EWP National Training Workshops scheduled for June through August 2011. The estimated completion date is December 31, 2011.

OIG Position

We accept management decision for this recommendation.

Recommendation 2

Conduct a review of all States, including those reviewed by OIG, receiving EWP Program disaster recovery funds in 2008 and 2009 to determine the extent of any incorrect charges to technical assistance and financial assistance accounts resulting from technical service reimbursements made to sponsors. Take appropriate actions, if required, on the results of the review.

Agency Response

NRCS officials concurred with this recommendation. Reviews will be conducted in 39 States that received EWP funding in fiscal years (FY) 2008-2009, looking at how the technical assistance and financial assistance funding was administered to local sponsors. In some cases, the EWP Program staff will partner with the Deputy [Chief for Strategic Planning and Accountability's] Compliance Division to conduct the reviews in various States. NRCS will also conduct some of the record reviews through video conferencing, email, and teleconferencing. NRCS will also be conducting training on financial assistance and technical assistance as part of

the EWP National Training Workshops to take place in the spring and summer of FY 2011. The estimated completion date is December 31, 2012.

OIG Position

We accept management decision for this recommendation.

Section 2: Non-systemic Issues Identified and Corrected

Finding 2: Non-systemic Issues Identified and Timely Addressed During the Audit

During our audit, we identified problems which State and/or field office personnel promptly addressed after we brought them to their attention. We found that one State had approved an agreement without obtaining a required written agreement from the Army Corps of Engineers; one State had reimbursed the sponsor for \$7,550 in ineligible construction expenses; and two States had under-reimbursed two sponsors \$10,525 on construction materials. The problems were non-systemic in nature; therefore, we are making no further recommendations for corrective actions. The details of these problems are as follows:

- The Indiana State NRCS Office approved an agreement to repair levees which served a watershed in excess of 400 square miles without having a written agreement with the Army Corps of Engineers or a waiver from NRCS' national office, as required by the EWP Program manual.¹⁸ The State office had obtained an e-mail from the Army Corps of Engineers stating that the levees were not on the Corp's Rehabilitation and Inspection Program list; therefore, they were no longer its responsibility and would not be repaired by them. Because the Army Corps of Engineers would not have performed the repairs, the levees would have been eligible for repair with EWP Program funds with NRCS Headquarters' approval. However, the State office, through oversight after getting a response from the Corps of Engineers, did not request national office approval. In a similar situation in another State, the NRCS Headquarters approved the waiver request.
- The Indiana State NRCS Office required a sponsor to share costs on construction pipe that the sponsor provided as in-kind contribution, resulting in an under-reimbursement of \$1,571. We concluded that the full value of the pipe should have been allowed for the sponsor's cost-sharing contribution under EWP Program Manual Paragraph 501.6.E, which lists cash, in-kind services such as materials, or a combination of the two, as allowable for the sponsor's contribution. After we discussed this issue with State office personnel, they agreed and issued an amendment to the EWP Program agreement reflecting the correct amount.
- In Missouri, we determined that a contractor had not been paid by the sponsor within 30 days of NRCS's reimbursement by the State office on invoices for an interim contract payment. Invoices that the sponsor submitted to the State office totaled \$40,392, of which NRCS reimbursed the sponsor \$30,274 (75-percent cost share). NRCS field office personnel met with the sponsor and the contractor was subsequently paid \$40,392.

¹⁸ EWP Manual Section 501.4(viii), October 2006, states that EWP funds will not be used to work on levee projects where the stream has a drainage area greater than 400 square miles.

- A Missouri sponsor submitted a request for reimbursement without the supporting invoices from the contractor. We reviewed the contractor's invoices and questioned approximately \$7,550 in unauthorized expenses. The expenses included unauthorized work to include site preparation. NRCS personnel agreed with our concerns and arranged with the sponsor to reduce its final request for reimbursement to reflect the corrected amount.
- We identified a Missouri sponsor that had planned to complete a portion of the repairs listed in the EWP Program agreement itself rather than have the contractor do the work, as specified in the agreement. This was essentially changing the agreement by providing an in-kind service rather than a cash contribution. NRCS personnel contacted the sponsor and informed them they could not change the EWP Program agreement without prior approval. The sponsor agreed to comply with the original agreement.
- In Iowa, we determined that a sponsor's contribution amount listed on a request for reimbursement had a calculation error that resulted in the sponsor being under-reimbursed by \$8,954. NRCS State office personnel agreed, issued an additional reimbursement to the sponsor, and implemented a change in the review/approval process whereby the NRCS State office's contracting section reviewed and approved EWP Program reimbursements rather than the budgeting section.

Scope and Methodology

OIG received additional funding for the oversight of disaster assistance and emergency programs. In response, we performed this review of NRCS' EWP Program assistance for the 2008 Midwest flooding and for damages caused by hurricanes, floods, wildfires, tornados, and ice storms in the Southwest and Southeast United States. Based on the type of natural disaster as well as the amount of EWP Program funding allocated to each affected State, we judgmentally selected Indiana, Iowa, and Missouri to review flood relief efforts; Louisiana and Texas to review hurricane relief efforts; and Kentucky to review ice storm recovery efforts. Of a total of approximately \$461 million in EWP Program funds allocated to States at the time of our audit, \$207.2 million was allocated to the six selected States: \$10.4 million to Indiana; \$23.9 million to Iowa; \$19.7 million to Kentucky; \$48.6 million to Louisiana; \$51.4 million to Missouri; and \$53.2 million to Texas.¹⁹ Within each State, we visited a sample of judgmentally selected agreements and field locations based on the number of approved contracts and the dollar amounts of obligated project funding. In the 6 States, we judgmentally selected 40 agreements of the 225 approved at the date of our review, or about 18 percent. Our selected sample included over \$9 million of the \$26 million obligated for the 225 signed agreements, or about 36 percent of the obligated funds. Sample agreements were judgmentally selected based on larger obligated dollar amounts, and in an effort to provide diversity in evaluating the types of projects.

At the Headquarters, State, and field office levels, we interviewed agency personnel responsible for the administration and management of EWP Program operations. In addition, we reviewed laws, regulations, policies, procedures, and program documents to verify and evaluate program implementation. At the State and field offices, we interviewed the responsible NRCS engineer or appropriate field office personnel, interviewed the selected local project sponsors and the responsible contractors, and visited the damaged sites. We performed the field work from February 2009 through November 2010.

We reviewed documents supporting eligibility and disbursements made at the time of our review for selected agreements to include sponsoring organizations, and all 31 contractors that had performed or, at the time of our field site visits, were performing the repair of the damage caused by the disaster. At the disaster site we observed, as appropriate, the current state of the site if no repairs had been made, or compared it to pictures taken before repairs were made to confirm they were made. However, we did not conduct interviews or on-site visits for 2 of the 40 selected agreements because no contracts had been initiated for any repair work at the time of our visits and our review of their applications disclosed no exceptions. Due to delays, such as bad weather, repair work had not been started at all contract sites at the time of our review. In those cases where the repair work had not started, we visited the site to confirm the damage.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain

¹⁹ Approximately \$72 million of the \$461 million was allocated to States for floodplain easement purchase purposes. This review was limited to EWP restoration and rehabilitation projects.

sufficient, 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. During this audit, we did not review, analyze, or verify information within the agency's automated information systems and we make no representation on the adequacy of the systems or the information generated.

Abbreviations

EWP Emergency Watershed Protection
NRCS Natural Resources Conservation Service
OIG Office of Inspector General
USDA..... Department of Agriculture

Exhibit A – Summary of Monetary Results

The following table records the monetary results from our audit, including a reference to the specific finding and, when appropriate, the recommendation. For Finding 2, NRCS personnel took timely, appropriate action, so we are making no further recommendation for corrective action. The monetary amounts associated with Finding 2 will not be recorded in any external reports.

Finding Number	Recommendation Number	Description	Amount	Category
1	1	Iowa: Technical services incorrectly charged to the financial assistance fund.	\$29,777	Funds to be put to better use – Improper Accounting
2	N/A	Missouri: Unauthorized charges not shown on invoice.	\$7,550	Funds to be put to better use – management or operating improvements savings
2	N/A	Indiana: under-reimbursement of \$1,571; Iowa: calculation error of \$8,954	\$10,525	Other: Underpayments and over-collections

USDA'S

**NATURAL RESOURCES CONSERVATION
SERVICE'S**

RESPONSE TO AUDIT REPORT

United States Department of Agriculture



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

March 02, 2011

SUBJECT: Natural Resources Conservation Service (NRCS)
Responses to the Office of the Inspector General (OIG)
Audit Report 10601-4-KC, Emergency Disaster Assistance

TO: Gil Harden
Assistant Inspector General for Audit
Office of the Inspector General

Attached are NRCS' responses to OIG recommendations contained in Audit Report 10601-6-KC, Emergency Disaster Assistance: Emergency Watershed Protection Program.

If you require additional information, please contact Lesia A. Reed, Deputy Chief for Strategic Planning and Accountability at (202) 720-6297.

Dave White
Chief

Attachment

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**Agency Responses for Audit Report 10601-6-KC Natural Resources
Conservation Service - Emergency Disaster Assistance: Emergency Watershed
Protection (EWP) Program**

Finding 1: NRCS Needs To Implement Corrective Actions to Resolve Disparities Among State Offices in Handling of Sponsors' Technical Assistance Costs

Recommendation 1

Immediately implement corrective actions to resolve the identified conditions regarding State offices' reimbursing, accounting, and reporting of technical assistance cost incurred by the sponsors.

Agency Response: An addendum will be issued to the States with guidance on how to address the technical assistance (TA) portion of the sponsor's cost share. For accuracy of the EWP cost-share program, and to ensure that it is administered properly and consistently across States, the cost-share guidance for Part 511.6 (E) of the policy manual will mirror 7 CFR- 624.6 (a) in its entirety.

This issue will also be addressed at the EWP National Training Workshops scheduled for June through August 2011.

Estimated Completion Date: 12/31/2011

OIG Position: To be determined by OIG.

Recommendation 2

Conduct a review of all States, including those reviewed by OIG, receiving EWP Program disaster recovery funds in 2008 and 2009 to determine the extent of any incorrect charges to technical assistance and financial assistance accounts resulting from technical service reimbursements made to sponsors. Take appropriate actions, if required, on the results of the review.

Agency Response: Reviews will be conducted in 39 States that received EWP funding in fiscal years (FY) 2008-2009, looking at how the TA and financial assistance (FA) funding was administered to local sponsors. In some cases, the EWP Program staff will partner with the Deputy Area for Strategic Accountability's Compliance Division to conduct the reviews in various States. We will also conduct some of the record reviews through video conferencing, email, and teleconferencing. We will also be conducting training on FA and TA as part of the EWP training workshops to take place in the spring and summer of FY 2011.

Estimated Completion Date: 12/31/2012

OIG Position: To be determined by OIG.

Finding 2: Non-systemic Issues Identified and Timely Addressed During the Audit

During our audit, we identified problems which State and/or field office personnel promptly addressed after we brought their attention. We found that one State had approved an agreement

without obtaining a required written agreement from the Army Corps of Engineers; one State had reimbursed the sponsor for \$7,550 in ineligible construction expenses; and two States had under-reimbursed two sponsors \$10,525 on construction materials. The problems were non-systemic in nature; therefore, we are making no further recommendations for corrective actions.

Recommendations: None to address.