



U.S. Department of Agriculture
Office of Inspector General
Great Plains Region
Audit Report

FARM SERVICE AGENCY
CONSERVATION RESERVE
ENHANCEMENT PROGRAM



Report No.
03099-45-KC
October 2001



UNITED STATES DEPARTMENT OF AGRICULTURE



OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20250

DATE: October 25, 2001

REPLY TO
ATTN OF: 03099-45-KC

SUBJECT: Conservation Reserve Enhancement Program

TO: James R. Little
Administrator
Farm Service Agency

ATTN: T. Mike McCann
Director
Operations and Review Analysis Staff

This report presents the results of our survey of the Conservation Reserve Enhancement Program. Your October 11, 2001, response to the draft report is included as exhibit A with excerpts and the Office of Inspector General's position incorporated into the relevant sections of the report. Also, the contract numbers shown in Finding No. 2 of the official draft have been deleted from this report due to privacy act considerations.

The response showed general concurrence with the audit findings and recommendations. However, it was not adequate to reach management decision because the timeframes for implementing the planned corrective actions were not shown. In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days showing the actual or planned timeframes for implementing each audit recommendation. Please note that the regulation requires a management decision to be reached on all findings and recommendations within a maximum of 6 months from report issuance.

We appreciate the courtesies and cooperation extended to us by members of your staff during the review.

/s/

RICHARD D. LONG
Assistant Inspector General
for Audit

EXECUTIVE SUMMARY

RESULTS IN BRIEF

The Farm Service Agency (FSA), with assistance from the Natural Resources Conservation Service (NRCS), administers the Conservation Reserve Enhancement Program (CREP). The program is designed to address significant environmental concerns in specific geographical areas through joint Federal-State partnership agreements. Participating State entities are responsible for funding a significant portion, such as 20 percent of the associated project costs. Producers approved for program benefits agree to establish and maintain approved conservation practices during the contract period which generally runs for 10-15 years. In return, producers receive various financial incentives, including annual rental payments that approximate local cash rent values. As of June 23, 2000, the Department had entered into Memorandums of Understanding with 13 States involving project outlays of about \$2.2 billion. The purpose of our review was to determine whether FSA implemented reasonable controls to promote compliance with program requirements. This included a limited amount of compliance testing.

The survey disclosed that material internal controls provided over the program were generally functioning as prescribed by management. However, we found that NRCS personnel were not completing annual status reviews as required. This did not provide FSA with reasonable assurance that conservation plans were being timely or properly applied. It also permitted NRCS to receive reimbursements for services that were not performed. We also found that FSA had not established requirements for obtaining data on the easement periods applicable to CREP acreages. This could result in the improper enrollment of such acreages in other available Federal programs, such as the Conservation Reserve Program (CRP), during the period between expiration of the CREP contract and the associated easement. Also, differences between the CREP acreages shown on FSA records and those determined from land surveys may not be treated in a consistent manner.

KEY RECOMMENDATIONS

We recommended that FSA direct State offices (STO) to provide feedback on situations where NRCS was not fulfilling its status review responsibilities. This included exploring alternatives for ensuring compliance with this program requirement. We also recommended that FSA assess the need for

requiring participating State entities to furnish data on the easement periods applicable to CREP acres.

FSA RESPONSE

The written comments on the draft report (see exhibit A) showed general agreement with the audit findings and recommendations.

OIG POSITION

We concur with the planned corrective actions for each audit recommendation. However, we will need to be advised of the actual or planned timeframes for implementation in order to reach management decision.

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INTRODUCTION

BACKGROUND

The Federal Agriculture Improvement and Reform Act of 1996 authorized implementation of the Conservation Reserve Enhancement Program (CREP). The program is designed to address significant environmental concerns through a joint Federal-State partnership. Interested State entities develop project proposals that must be consistent with all legislative and regulatory aspects of the associated Conservation Reserve Program (CRP). The project proposals, which specify the responsibilities applicable to each party, are submitted to the Department for review by an interagency panel. Any panel comments are returned to the State for consideration in developing the final proposal. The final proposal is set forth in a Memorandum of Understanding between the State's Governor and the Secretary of Agriculture.

The primary CREP objectives are to coordinate Federal and non-Federal resources to address specific conservation objectives in a cost-effective manner and to improve water quality, erosion control, and wildlife habitat related to agricultural use in specific geographic areas.

The CREP offers financial incentives to encourage producers to remove land from agricultural production for periods up to 15 years through a formal contract process. The Farm Service Agency (FSA), with technical assistance from the Natural Resources Conservation Service (NRCS), administers the individual CREP contracts. Participating State entities, such as Soil and Water Conservation Districts (SWCD) and Boards of Soil and Water Resources (BSWR), also provide direct technical and financial assistance.

The CREP is an extension of the existing CRP. Therefore, producer and land eligibility requirements are the same for both programs (i.e., land must have been owned or operated by the applicant for the previous 12 months, must have been planted to crops in 2 of the last 5 years, and must be physically and legally capable of being cropped). As with the CRP, producers with approved CREP contracts receive annual rental payments that reflect local cash rent values and other cost-share incentives. However, differences do exist between the two programs. For

example, the CREP is designed to target a specific geographic area such as a watershed. Also, CREP represents a partnership effort between the Federal government and interested States. The CREP is also results oriented and requires States to establish measurable objectives and conduct annual monitoring to measure progress toward established goals. This includes the preparation of annual reports showing project accomplishments. The CREP is also flexible and can be adapted to meet local conditions within existing legal constraints.

On February 29, 2000, the Commodity Credit Corporation (CCC), FSA, and NRCS entered into a Memorandum of Understanding that specified the CRP responsibilities applicable to each agency. The agreement showed, in part, that NRCS was responsible for ensuring a sufficient number of qualified employees available to provide timely CRP determinations for all acres offered during signup periods. This included the preparation and modification of conservation plans and other program documents on an as needed basis. NRCS was also responsible for conducting no more than three annual status reviews on approved offers. The agreement further provided that CCC would reimburse NRCS a total of \$456 for each offer enrolled in the program that consisted of any newly enrolled acreage.

The Department originally established a maximum enrollment of 100,000 CREP acres per State. However, the Department is monitoring that ceiling and will determine the need for any future adjustments.

OBJECTIVES

The primary objectives of this review were to identify and assess the sufficiency of controls designed to promote compliance with program requirements and to determine whether such controls were functioning as prescribed. The internal controls reviewed included those over producer, payment and practice eligibility; payment limitation; and status reviews and associated program monitoring and reporting requirements.

SCOPE

Our review was generally conducted between August and September 2000 and included visits to the FSA and NRCS offices located in Washington, D.C., Springfield, Illinois, and St. Paul, Minnesota. We also visited the SWCD and BSWR State offices located in Springfield, Illinois, and St. Paul, Minnesota. In addition, we visited the local FSA, NRCS, and SWCD offices in two Illinois counties (Cass and

Schuyler) and two Minnesota counties (Redwood and Renville). The States and counties visited were selected based on an analysis of records showing the volume of program activity and input by agency officials. The review period was generally limited to activities that

occurred during fiscal year 2000. However, older transactions were reviewed to the extent deemed necessary.

Program records showed that the estimated project outlays for Illinois and Minnesota totaled about \$473 million. This represented about 20 percent of the \$2.2 billion approved nationwide as of June 23, 2000. The records also showed that there were a total of 2,602 approved CREP contracts in Illinois (271) and Minnesota (2,331).

We reviewed supporting program records for a judgmental sample of 47 of 451 CREP contracts at the four counties visited. The sample contracts were selected based on the signup number, acreage enrolled, and practice type.

The review was conducted in accordance with Government Auditing Standards. Accordingly, our review included tests of program and accounting records deemed necessary to meet the survey objectives.

METHODOLOGY

Our review included interviews with FSA and NRCS officials at the national, State and local levels. In addition, we interviewed SWCD and BSWR State office personnel in Illinois and Minnesota.

At the national and State levels, we reviewed program activity reports to identify potential audit sites. This included any approved CREP agreements and associated correspondence files. We also reviewed FSA and NRCS CREP related policies, notices, and handbook instructions.

Fieldwork at the local level generally consisted of reviewing the sample CREP contract files to determine if they were being administered in accordance with the provisions contained in FSA Handbook 2-CRP, the approved Memorandums of Understanding (State CREP Agreements), and Federal FSA and NRCS conservation reserve policies and procedures. We also verified that CREP payments were made in accordance with FSA regulations, the associated Memorandums of Understanding, and NRCS cost-share requirements. We also contacted producers in

conjunction with onsite inspections of established practices on an as needed basis.

FINDINGS AND RECOMMENDATIONS

CHAPTER 1	ADDITIONAL PROGRAM CONTROLS ARE NEEDED
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The survey disclosed that material internal controls provided over the program were generally functioning as prescribed by management. However, we concluded that the adoption of additional controls could further enhance CREP operations. For example, we found that FSA county office employees (COE) did not notify STO's or the national office of situations where NRCS was not meeting its status review responsibilities. This prevented either agency from taking action to address the issue. In addition, FSA had not assessed the need for obtaining data on the easement periods applicable to CREP acres. This could result in the improper enrollment of such acreages in other available Federal programs, such as the CRP, prior to expiration of the easements.

FINDING NO. 1

STATUS REVIEW REQUIREMENTS NOT MET

We did not find any evidence to support the completion of annual status reviews for 34 of the 47 sample contracts reviewed. Local NRCS personnel stated that the limited availability of time and resources prevented the completion of such reviews. Also, FSA personnel at the local level had not taken action to notify the FSA STO's that such reviews were not being performed. This did not provide either agency with reasonable assurance that the conservation plans were being implemented in a timely and complete manner. It also permitted NRCS to receive reimbursements for services that were not performed.

FSA Handbook 2-CRP (Rev. 3), paragraph 338B, provides that NRCS personnel are required to complete a status review with the participant and county office committee (COC) representative, if available, for each Form CRP-1, Conservation Reserve Program Contract, before the end of the fiscal year until all practices in the plan are applied and the approved cover is established. Vegetative and tree cover establishment is to be reported to FSA by a status review labeled "Final". The Memorandum of Understanding between CCC, FSA, and NRCS also provides for NRCS to receive

a reimbursement of \$456 for each accepted offer to offset the costs of providing various technical and administrative services. These include the completion of no more than three status reviews.

The annual status reviews are designed to provide FSA with reasonable assurance that agreed-to conservation measures and practices are timely and properly applied. Each producer with an approved CRP contract, including CREP contracts, is subject to annual status reviews during the first 3-years of the contract period.

NRCS personnel are responsible for conducting the associated onsite inspections. They also complete a supporting Form NRCS-LTP-03, Status Review, to document the inspection results. That form contains data on progress in applying the conservation plan, the need for any plan revisions and technical assistance, and whether the land is still under the participant's control.

Producers are subject to contract termination if the required practices have not been established by the time that NRCS personnel complete the final (third) status review. FSA personnel are responsible for conducting annual practice spot-checks after NRCS completes the final status review.

The survey disclosed that only 12 of 47 sample contracts contained evidence of an annual status review even though each contract had been in effect for at least 1 year. In addition, the available documentation for a 3-year old contract only supported the completion of annual status reviews in the first and third years. It should be noted that FSA personnel maintained a log of CREP contracts referred to NRCS for a status review.

As such, COE were aware of any backlogs at the local level. However, they did not notify the STO's or national office that NRCS was not fulfilling its status review responsibilities.

RECOMMENDATION NO. 1

Direct the STO's to provide feedback in situations where NRCS has not carried out its status review responsibilities. Also, explore alternatives for ensuring ongoing compliance with this program requirement.

FSA Response

The written comments on the draft report (see exhibit A) showed that FSA would issue a notice requiring feedback on situations where NRCS did not meet its status review responsibilities. This included the number of occurrences and circumstances involved. The response also showed that FSA planned to strengthen the status review provisions contained in the reimbursable agreement

with NRCS for fiscal year 2002.

OIG Position

We concur with the planned corrective actions for the audit recommendation. However, we will need to be advised of the actual or planned timeframes for implementation in order to reach management decision.

FINDING NO. 2
STATE EASEMENTS NOT IDENTIFIED

FSA did not establish requirements for obtaining data on the easement periods applicable to CREP acres. Also, differences between the CREP acres shown on FSA records and those determined from land surveys may not be treated in a consistent manner. FSA

STO personnel said they overlooked the need to obtain the easement period data at the time of program implementation. This could result in the improper enrollment of such acreages in other available Federal programs (e.g. CRP) during the period between expiration of the CREP contract and the associated easement.

FSA Handbook 2-CRP (Rev. 3), paragraph 82, provides, in part, that eligible CREP acres include cropland that is physically and legally capable of being planted in a normal manner to an agricultural commodity as determined by the COC.

The survey disclosed that Illinois and Minnesota offered different easement periods for land enrolled in the CREP. For example, the State of Illinois offered three different easement periods (15 years, 35 years, and permanent). Similarly, the State of Minnesota offered three different easement periods (20 years, 35 years, and permanent).

The same easement periods also applied to any additional acres taken at the time of CREP enrollment. For example, a Schuyler County, Illinois, producer was approved for two CREP contracts totaling 230.7 acres. However, the associated easement covered a total of 325 acres. This included the 230.7 acres enrolled in CREP and an additional 94.3 acres of non-CREP land.

We also identified a potential problem with respect to the treatment of differences between the CREP acres shown on FSA records and those determined from the associated land surveys. For example, COE in Cass County, Illinois, stated that they would adjust CREP

acres to reflect the land survey results if available. However, they were not aware that land surveys had been conducted on any of the CREP acres at the time of our review. Conversely, COE in Schuyler County, Illinois, stated they would probably not consider the land survey results unless instructed to do so by the STO.

Our comparison of the CREP and associated land survey records disclosed acreage differences for 2 of 14 sample contracts in Cass County, Illinois, as follows:

Example No.	No. of Acres		Acreage Difference
	Per FSA	Per Land Survey	
1	28.6	27.2	1.4
2	88.4	86.2	2.2
Total	117.0	113.4	3.6

A COE advised us that they used the acreages shown on the aerial photographs in cases where an entire field was enrolled in CREP. For the two cited contracts, the enrolled acreages consisted of whole fields. Also, FSA officials indicated that acres that are measured and guaranteed by the COE are to be used for payment purposes rather than land surveys.

FSA Handbook 2-CRP (Rev. 3), paragraph 268, provides, in part, that acreage errors in CRP contracts are to be corrected when FSA becomes aware of such errors regardless of the size of the difference. The instructions further provide that prior overpayments resulting from overstated acreages will not be recovered.

The importance of obtaining easement data on both CREP and non-CREP acres is evidenced by the fact that such acreages cannot be cropped during the easement period. Without this information, producers could be improperly allowed to enroll such acreages into other available programs prior to expiration of the easements. Similarly, producers should receive consistent treatment of CREP acreages when determining the CREP payments.

RECOMMENDATION NO. 2

Determine the need for requiring participating State entities to provide information on the location and length of easements obtained on CREP and/or

non-CREP acres as a condition of agreement approval. Also, take action to ensure the consistent treatment of acreage differences resulting from land surveys conducted on CREP acres.

FSA Response

The written comments on the draft report (see exhibit A) indicated that FSA would request State CREP partners to furnish data on the easements obtained from CREP participants. This included aerial photography showing the location of such easements and the associated easement period. This would enable FSA to denote the easement data on its aerial photography. The response also showed that FSA would issue a notice designed to ensure the consistent treatment of any identified acreage differences between its official measurements and those obtained during land surveys.

OIG Position

We concur with the planned corrective actions for the audit recommendation. However, we will need to be advised of the actual or planned timeframes for implementation in order to reach management decision.

FINDING NO. 3

NONCOMPLIANCE WITH DOCUMENTATION REQUIREMENTS

FSA personnel did not always properly complete Forms CRP-1, Conservation Reserve Program Contract, and CRP-2, Conservation Reserve Program Worksheet. FSA personnel advised us that inexperienced personnel, together with the limited availability of time and resources, prevented the documentation requirements from being met. NRCS personnel also advised us that they did not return incomplete Form CRP-2's to FSA because they believed the missing data was not critical and was available from other supporting records. However, having reliable data is important to maintain program integrity.

FSA Handbook 2-CRP (Rev. 3), paragraph 155B, provides, in part, that all item numbers must be completed before the offer data is entered into the automated system and transmitted to the State office. Those instructions also provide that NRCS personnel are to return any incomplete Form CRP-2's to FSA for completion. These instructions also provide that COE are not to process any offers until the supporting Form CRP-2's are read, signed, and dated by the producers. The Memorandum of Understanding between CCC, FSA and NRCS also contains similar language.

Our review of the supporting Form CRP-1's and CRP-2's for a judgmental sample of 47 CREP contracts in the 4 counties visited disclosed the following examples of missing or incomplete documentation:

Form CRP-1, Conservation Reserve Program Contract

- The total cost-share data (Block 12E) was not documented in 24 cases (Cass and Schuyler Counties);
- The first year payment amount (Block 11C) was not documented in 12 cases (Cass, Redwood, Renville, and Schuyler Counties);

Form CRP-2, Conservation Reserve Program Worksheet

- The total cost-share amount (Block 8) was not documented in 12 cases (Cass County);
- The forms were not signed and/or dated (Block 40) by the producer in six cases (Cass County);
- The rental rate per acre offer (Block 9) was not documented in four cases (Cass County).

Properly completed CRP documents, especially those that represent contractual obligations, are important for program administration purposes.

RECOMMENDATION NO. 3

Issue a directive reminding State and CO personnel of the importance of ensuring complete and accurate Form CRP-1's and CRP-2's.

FSA Response

The written comments on the draft report (see exhibit A) showed that FSA would issue a notice reminding State and county office personnel of the importance of ensuring complete and accurate Form CRP-1's and CRP-2's.

OIG Position

We concur with the planned corrective action to address the audit recommendation. However, we will need to be advised of the actual or planned timeframes for implementation in order to reach management decision.

EXHIBIT A – FSA RESPONSE TO DRAFT REPORT



OCT 11 2001

United States
Department of
Agriculture

Farm and Foreign
Agricultural
Services

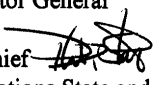
Farm Service
Agency

Operations Review
and Analysis Staff

Audits,
Investigations,
State and County
Review Branch

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TO: Director, Farm and Foreign Agriculture Division
Office of Inspector General

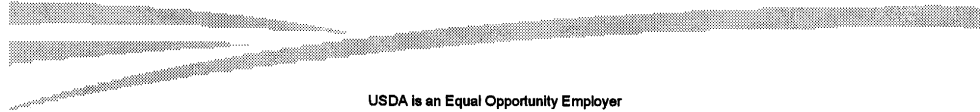
FROM: Philip Sharp, Chief 
Audits, Investigations State and County Review Branch

SUBJECT: Response to Audit Number 03099-45-KC , Conservation Reserve
Enhancement Program

Enclosed is a copy of a memorandum dated October 11, from the Farm Service Agency's (FSA's) Acting Deputy Administrator for Farm Programs, which responds to your September 16 request for information regarding the subject audit.

Please address any questions to Cindy Foister, FSA, Audits, Investigations, State and County Review Branch, at 720-5463.

Enclosure



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TO: Philip Sharp
Chief, Audits, Investigations, State and County Review Branch

FROM: Diane Sharp *Diane Sharp* OCT 11 2001
Acting Deputy Administrator for Farm Programs

SUBJECT: Farm Service Agency (FSA) Response to Office of Inspector General
(OIG) Official Draft - Audit No. 03099-45-KC, Conservation Reserve
Enhancement Program - Your September 16 Memorandum

Our responses follow the three recommendations contained in OIG's Official Draft.

OIG Recommendation No.1: Direct the State offices to provide feedback in situations where the Natural Resources Conservation Service (NRCS) has not carried out its status review responsibilities. Also, explore alternatives for ensuring ongoing compliance with this program requirement.

FSA Response: The NRCS national office acknowledges the need for status reviews but has cited the lack of available resources and high workload as the reasons for the limited amount of status reviews being conducted.

FSA supports the need for status reviews and will issue a notice requiring feedback on situations where NRCS failed to meet its status review responsibilities required under reimbursable agreement. Such feedback will include the number of occurrences and circumstances.

Status reviews provide the designated technical agency the opportunity to evaluate the condition of the stand and management measures being conducted on the CRP land. This would help ensure the long-term stand survival and that the estimated environmental benefits are achieved. FSA believes that status reviews are essential for the management of the program. FSA has repeatedly requested that NRCS conduct status reviews of CRP stands and has included annual status review requirements in its reimbursable agreement with NRCS.



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FSA intends to strengthen the status review provisions in its technical assistance reimbursable agreement with NRCS for Fiscal Year 2002. FSA does not currently track the status of NRCS status reviews but will initiate a process to track, monitor, and evaluate all status reviews.

OIG Recommendation No. 2: Determine the need for requiring participating State entities to provide information on the location and length of easements obtained on CREP and/or non-CREP acres as a condition of agreement approval. Also, take action to ensure the consistent treatment of acreage differences resulting from land surveys conducted on CREP acres.

FSA Response No. 2: FSA is willing to work with our State CREP partners to request that they provide aerial photography and a time frame for their easement agreements to the administering county FSA office. FSA could then denote the easements and time frame on FSA aerial photography. CREP easements are a relatively small portion of the larger conservation easement picture that occurs on private land.

There could be some benefits to securing data on long-term conservation easements but cost to benefit ratio is questionable of such an endeavor if it is expanded beyond CREP. To fully implement this option would present a myriad of administrative challenges for the Agency. Conservation easements may be secured by a number of Federal, State, and private entities.

Each of these easements would have to be reviewed to determine what land use restrictions are involved and the exact geographic boundaries that the easement impacts. The geographic boundaries would then have to be conveyed to our FSA aerial photography. This is a very time consuming and skilled process and would involve extensive review of court house records by highly skilled paralegal staff and surveyors. FSA has very limited staff and budget to implement that requirement.

There is little or no statutory guidance for the Agency to conduct such an extensive review and the benefits (cost saving by ensuring easement land is not enrolled) would likely be very little.

FSA will issue a notice to ensure that any difference between FSA official measurements and land survey measurements are handled in a consistent and equitable manner

Philip Sharp
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OIG Recommendation No. 3: Issue a directive reminding State and county office personnel of the importance of ensuring complete and accurate form CRP-1's and CRP-2's.

FSA Response No. 3: FSA will issue a notice reminding CRP staff of the importance of timely and accurate completion of CRP-1's and CRP-2's form. Additional spot check of CRP-1's and CRP-2's forms will be completed.