



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

Natural Resources Conservation Service  
Environmental Quality Incentive Program  
Cost Share Practice Approvals and  
Specifications in Nebraska



**Audit Report No.  
10005-1-KC  
November 2002**



UNITED STATES DEPARTMENT OF AGRICULTURE  
OFFICE OF INSPECTOR GENERAL

Audit  
Great Plains Region  
5799 Broadmoor, Suite 600  
Mission, Kansas 66202



DATE: November 21, 2002

REPLY TO  
ATTN OF: 10005-1-KC

SUBJECT: Environmental Quality Incentive Program Cost Share Practice Approvals  
and Specifications in Nebraska

TO: Steven K. Chick  
State Conservationist  
Natural Resources Conservation Service  
100 Centennial Mall North  
Federal Building, Room 152  
Lincoln, NE 68508-3866

**SUMMARY:**

We have completed a review of Natural Resources Conservation Service (NRCS) Environmental Quality Incentive Program (EQIP) Cost Share Practice Approvals and Specifications at selected locations in Nebraska. The review was conducted to assess the merits of a complaint alleging that an NRCS employee improperly approved cost shares on a practice that did not meet specifications for one EQIP contract. Also, the complaint alleged that the contractor coerced NRCS personnel into approving the water tanks for cost shares, even though the construction did not meet NRCS specifications. Our review substantiated that the practice did not meet design specifications; however, it was constructed in a manner that met NRCS technical standards and was approved by an NRCS Civil Engineer. We also found that the documentation showed that the contractor, rather than the program participant, requested and received a review of the preliminary technical determination from an NRCS employee. As a result, an appearance existed that the contractor received favorable treatment. The NRCS response showed that they believed the NRCS District Conservationist followed NRCS policy. We continue to conclude that NRCS acted on the contractor request, not the contract holder, as required.

Also, our review disclosed that management controls at one field office and one district office did not appear to be functioning as intended. Specifically, we found that status and quality reviews were not always completed or did not always identify practices that were not completed as planned, documentation was missing from two of four EQIP folders reviewed, and required administrative reviews were not always documented or maintained.

**BACKGROUND:**

EQIP was established by the Federal Agricultural Improvement Reform Act of 1996 as a voluntary conservation program for farmers and ranchers facing serious threats to soil, water, and related natural resources. Nationally, it provides technical, financial, and educational assistance primarily in designated priority areas with half targeted to livestock-related natural resource concerns, and the remainder to other significant conservation priorities.

All EQIP activities must be carried out in accordance with a conservation plan. Conservation plans are site-specific for each farm or ranch and can be developed by producers with assistance from NRCS or other service providers. Producers' conservation plans should address the primary natural resource concerns. All plans are subject to NRCS technical standards adapted for local conditions and are approved by the conservation district.

EQIP offers 5 to 10-year contracts that provide incentive payments and cost sharing for conservation practices included in the site-specific plan. Contract applications are accepted throughout the year. NRCS conducts an evaluation of the environmental benefits the producer offers. Offers are then ranked according to previously approved criteria developed with advice from the local work group. The Farm Service Agency (FSA) county committee approves funding for the highest priority applications. Applications are ranked according to expected environmental benefits weighted against the costs of applying the practices. Higher rankings are given for plans developed to treat priority resource concerns at a sustainable level. EQIP seeks to maximize environmental benefits per dollar spent.

The District Conservationist (DC) is responsible for performing quality reviews in his/her field offices. The quality reviews consist of verifying and documenting that technical or financial assistance provided is in accordance with objectives of the client, that planned practices constitute an adequate Resource Management System, and that practices installed meet approved standards and specifications. Additionally, quality reviews correct deficiencies and document that all necessary corrective action has been completed.

Annual status reviews are conducted on the supporting conservation plans for each active EQIP contract. The reviews include site visits designed to determine the success of practices and systems completed, status of practices not completed, reasons for lack of progress in plan completion, needs for conservation plan revision, and the existence of any contract violations.

For fiscal year 1999, Nebraska received 648 requests for EQIP contracts totaling about \$12.7 million. Of these, 336 EQIP contracts with cost shares totaling about \$3.8 million were approved.

A complaint, dated February 23, 2002, alleged that an NRCS employee improperly approved three water tanks for cost shares that did not meet government specifications.

Also, the complainant alleged that the contractor coerced NRCS personnel into approving the water tanks for cost shares even though the construction did not meet NRCS specifications.

### **OBJECTIVE:**

The objective of the review was to assess the merits of the allegations in the complaint relative to EQIP cost share practice approvals and specifications used by the one field and one district office in Nebraska.

### **SCOPE AND METHODOLOGY:**

Our review was performed at Nebraska NRCS State office (STO), one district office and one field office. At the field office, we reviewed 4 of 15 EQIP contracts with water tanks approved for cost shares from 1997 through 2001. At the field office visited, only two EQIP contracts for water tanks were approved and only one was cost shared during the 1999 program year. To meet the audit objective, we reviewed three additional EQIP contracts with water tanks (two contracts from 1997 and one from 1998).

To accomplish our objective, we interviewed officials at the Nebraska STO, one district office, and one field office. We reviewed NRCS EQIP procedures and participation reports obtained from the State and district offices. At the district and field office, we reviewed EQIP contract documentation and the results of the DC's quality and administrative reviews. We also interviewed the complainant, two contractors (one of whom installed the practice in question), and one producer with Conservation Reserve Program cost shares that were not approved. In addition, we made field visits, with the assistance of State and district office personnel, to assess whether cost share practices in question, and other applications for the same practice, met NRCS standards and specifications. The fieldwork was performed in May and June 2002. We conducted the audit in accordance with Government Auditing Standards.

### **AUDIT RESULTS:**

#### **1. COST SHARE PRACTICE MET TECHNICAL STANDARDS.**

We concluded that the EQIP practice (water tanks) in question did not meet the original design specifications; however, the practice did meet NRCS technical standards. NRCS personnel stated that an alternative to the approved design was used to construct the water tanks. NRCS personnel initially disapproved the water tanks for cost shares because they were not built to the approved design. However, the alternative water tank design was reviewed and approved by an NRCS Civil Engineer. The Civil Engineer had been delegated authority<sup>1</sup> by the State Conservation Engineer to approve the design and construction of all water tanks at the time the subject water tanks were approved. We reviewed the technical standards for tanks<sup>2</sup> and accompanied the State Conservation

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<sup>1</sup> NRCS Manual 440, Part 515.21 f.

<sup>2</sup> Nebraska Technical Guide Notice 383, dated April 1994.

Engineer on field visits to assess construction of the subject water tanks. During the site visit, the State Conservation Engineer stated that the water tanks exceeded specifications because the contractor added additional height to the inside rim of the tank that was not in the original tank design, and the concrete shoulder extended further out from the tank wall than required by the original design. We also compared the water tank construction to a water tank built to design by another contractor, and concluded that the water tanks in question had more concrete on the inside rims, and the concrete shoulder extended further outside the water tanks than the one water tank built to the original design.

### **NRCS RESPONSE:**

In its October 29, 2002, response (see attachment), the Nebraska NRCS State Office stated, "No action required."

## **2. PROGRAM CONTROLS COULD BE IMPROVED.**

Our review of 4 of 15 EQIP contracts with water tanks indicated that program controls over annual status reviews and compliance with Plans of Operations could be improved. NRCS field office personnel stated that they did not consider these areas a high priority. As a result, the assurance is reduced that EQIP, as implemented, is meeting program objectives. Conditions identified during our review included:

- NRCS personnel did not perform annual status reviews for three of four EQIP contracts reviewed. NRCS procedures provide for annual status reviews of the EQIP contract and conservation plans. Our review of two EQIP contracts disclosed that annual status reviews were not performed during calendar year 2001. Also, another EQIP contract did not have an annual status review performed in calendar years 2000 or 2001. NRCS personnel stated that the status reviews were not performed due to time constraints. As a result, the producers' conservation practices may not be achieving the intended results.
- NRCS personnel did not ensure that EQIP practices were completed, according to the Conservation Plan of Operations (CPO) for one of four EQIP contracts with water tanks reviewed. NRCS procedures<sup>3</sup> provide that contract items be accomplished not later than one year after the year shown on the CPO. The CPO for one EQIP contract provided for the installation of a water tank in 1998; however, as of March 2002, the producer had not provided documentation showing that the practice was completed, even though NRCS notes dated March 13, 2002, indicate the practice had been completed. Also, the delay in implementation was not documented or approved by NRCS. NRCS personnel stated that the CPO should have

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<sup>3</sup> General Manual, Part 404.89, 2, Time Schedule.

been modified, and as a result, the producer was not in compliance with the plan.

### **NRCS RESPONSE:**

In its October 29, 2002, response (see attachment), the Nebraska NRCS State office stated, "The requirement for completing annual status reviews has been reviewed with the District Conservationist. Recent Nebraska NRCS quality assurance activities have given us better data to address this concern. Quality assurance from our Quality Assurance Team will be completed to ensure that status review policy is being followed."

### **3. DOCUMENTATION WAS NOT MAINTAINED**

NRCS district and field office employees did not always maintain program records or the results of administrative reviews, as required. This occurred because NRCS personnel did not always follow file maintenance procedures. As a result, NRCS staff was unsure when practices were completed and approved for cost share, and were unclear as to the results of the administrative reviews.

Examples identified during our review included:

- Supporting documentation was missing from two of four EQIP folders reviewed. Our review of one EQIP contract disclosed that the program folder was missing one data sheet and one payment sheet, but did contain a payment sheet for a practice that was not included on the CPO. Field office personnel could not explain the missing documentation or support the payment of \$7,306 in cost shares for the practice not included in the CPO. NRCS procedures<sup>4</sup> provide that employees are responsible for ensuring records are not lost or destroyed.

### **NRCS RESPONSE:**

In its October 29, 2002, response (see attachment), the Nebraska NRCS State office stated, "Modification of this nature can be documented with pen and ink changes to the CPO or on form CCC-1245 (440-V-CPM, First Edition, Amend. 1, Feb. 1999, 515.112b). The CCC-1245 was completed for this contract item, which contained three tanks, on September 29, 1998, for two tanks that were completed as scheduled. Additional documentation in the case file reveals that, through follow-up activities, the 3rd tank was installed at a later date and accounted for."

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<sup>4</sup> General Manual, Part 408.23, Responsibilities.

- District office personnel discarded the Quality Assurance Worksheets used to document the results of administrative reviews after field office employees corrected cited deficiencies. NRCS procedures<sup>5</sup> provide that administrative review materials (functional appraisals, five percent spot checks, or similar compliance performed by NRCS) be maintained. As a result, the NRCS STO does not have assurance that administrative reviews were performed or appropriate corrective action was taken.

#### **NRCS RESPONSE:**

In its October 29, 2002, response (see attachment), the Nebraska NRCS State office stated, "Recent internal Nebraska NRCS quality assurance activities has resulted in better data to address concerns cited. Appropriate actions and controls will be implemented to address this concern. In January 2002, I established a Quality Assurance Team consisting of four positions under the supervision of the ASTC/Field Operations. This team has specific responsibilities to address these types of issues. As with any new position, it has taken time to develop the protocols and policy to implement the Quality Assurance Teams' activities. Concerning the example cited, General Manual 330, part 405, has been updated at the State level and is currently in final review for posting. This state level update to the General Manual clarified the requirements, documentation, and filing procedures for quality assurance activities."

#### **4. REVIEW PROCESS IN QUESTION**

A review was conducted at the request of a contractor (rather than the EQIP participant) to an NRCS employee on the cited EQIP conservation practice that was disapproved for cost shares by an NRCS field office employee. In addition, the NRCS employee did not have approval authority for the practice at the time of the review. This occurred because NRCS did not follow the prescribed review procedures and does not require the appeal official to have the approval authority for the practice under review. As a result, an appearance that the contractor received favorable treatment existed.

A complainant alleged that the contractor coerced NRCS personnel into approving the water tanks for cost shares, even though the construction did not meet NRCS specifications.

NRCS records show that on July 6, 2000, the field technician, responsible for approving the water tank installations, reported to the field office Resource Conservationist that the water tanks did not meet NRCS specifications. On July 19, 2000, the producer requested the Resource Conservationist to review the water tanks as built. The DC requested that the Resource Conservationist

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<sup>5</sup> General Manual, Part 408.63(a), Recurring Subjects.

visit the site and review the water tanks. On July 28, 2000, the Resource Conservationist advised the DC that the water tanks did not meet specifications, and on August 14, 2000, the Resource Conservationist, with appropriate approval authority for water tanks, notified the producer that three water tanks were not approved for cost shares because they were not built in accordance with NRCS specifications. On August 28, 2000, the contractor met with the Resource Conservationist and requested a meeting with a NRCS manager that did not have water tank approval authority and the NRCS Civil Engineer to discuss the disapproved water tanks. The two NRCS officials reviewed the tanks. On September 8, 2000, the NRCS manager informed the producer of the final technical determination that the water tanks were approved for EQIP cost shares as built. The NRCS manager also advised that any future practices not installed according to design and specifications would not receive cost shares.

NRCS procedures<sup>6</sup> provide guidance for persons seeking review of a preliminary technical determination. The procedures provide, in part, that when the field office makes a preliminary technical determination that is potentially adverse to the client, a letter is sent to the person advising of options for a field visit, mediation, or appeal to the FSA County Committee. If the person requests a field visit within 30 days of the preliminary determination, a field visit is made with the DC. The DC makes a final technical determination and advises the producer of the decision and appeal rights, if necessary.

We concluded that there was an appearance of favorable treatment based on NRCS records that show that the request for review of the preliminary technical determination was made by the contractor, and not the EQIP contract holder. We also noted that a NRCS manager, who at the time of the review did not have approval authority for water tanks, approved the questioned cost share practice. The NRCS manager was, subsequently, delegated approval authority for water tanks on June 11, 2001.

#### **NRCS RESPONSE:**

In its October 29, 2002, response (see attachment), the Nebraska NRCS State office stated, "The process described is our current policy. In review of the situation cited:

1. The August 14, 2002, letter was delivered from the Field office to the landowner with alternatives to handle the situation at the Field office level.
2. When the situation was not able to be resolved at the Field office level, the process was elevated to the District Conservationist level.
3. The District Conservationist followed appropriate protocol to investigate and resolve the situation.

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<sup>6</sup> 180-V-NFSAM, Third Ed., Amend. 2, Part 521.22, dated Nov. 1996.



4. Since the situation was outside the District Conservationist's specialty, the appropriate specialist was utilized to evaluate the District Conservationist.
5. The District Conservationist made a final determination concerning the situation using all available information.

The process is no different than when a concern is elevated to the State office level. I, as the State Conservationist, call on the appropriate specialist to evaluate the concern if it was outside of my area of specialty.”

### **RECOMMENDATION:**

Assess the cited conditions and conduct an administrative review of operations at these district and field offices to ascertain whether their office operations are being conducted according to procedures, and take appropriate corrective actions, based on the review results. Also, remind all staff that reviews of technical determinations may be requested by the program participants only and coordinate with the NRCS National office to clarify technical approval authorities needed by staff when reviews are requested.

### **NRCS RESPONSE:**

In its October 29, 2002, response (see attachment), the Nebraska State office did not specifically address the recommendation made.

### **OIG POSITION:**

We are unable to accept a management decision for the recommendation, because the NRCS response addressed each audit result, but did not address the recommendation. In order for us to consider the management decision for the recommendation, we need to be provided information on the actions taken or contemplated to address it.

For Audit Results No. 4, the records show that the participant did not initiate the reconsideration request. The participant's contractor initiated it upon notification that the tanks would not meet the NRCS standards; and, therefore, the participant would not be eligible for cost-share reimbursement. The NRCS procedures provide that when the field office makes a preliminary technical determination that is potentially adverse to the client, a letter is sent to the person advising of options for a field visit, mediation, or appeal to the FSA County Committee. The right to appeal applies to program participants and not their contractors unless granted formal written authority. Also, the DC who acted on the contractor's request did not have the approval authority, at the time, to approve the water tanks in question.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days clearly describing the corrective action taken, or planned, and the timeframes for implementing the 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.

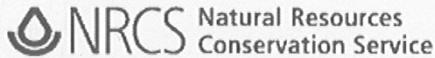
We appreciate the cooperation extended to us by your staff during the review.

*/s/*

DENNIS J. GANNON  
Regional Inspector General  
for Audit

Attachment

## United States Department of Agriculture



Nebraska State Office  
Federal Building, Room 152  
100 Centennial Mall North  
Lincoln, NE 68508-3866

<http://www.ne.nrcs.usda.gov>

October 29, 2002

Dennis J. Gannon  
Regional Inspector General for Audit  
USDA Office of Inspector General  
Great Plains Region  
5799 Broadmoor, Suite 600  
Mission, Kansas 66202

Attention of: 10005-1-KC

Subject: Environmental Quality Incentives Program Cost Share Practice Approvals and Specifications in Nebraska.

Following is the information you requested regarding the above mentioned audit report:

**Audit Result 1:** COST SHARE PRACTICE MET TECHNICAL STANDARDS

**Response:** No action required

**Audit Result 2:** PROGRAM CONTROLS COULD BE IMPROVED:

**Bullet 1:** Annual status reviews:

**Response:** The requirement for completing annual status reviews has been reviewed with the District Conservationist. Recent Nebraska NRCS quality assurance activities have given us better data to address this concern. Quality assurance from our Quality Assurance Team will be completed to ensure that status review policy is being followed.

**Bullet 2:** Conservation Plan of Operations (CPO) Modifications:

**Response:** Modifications of this nature can be documented with pen and ink changes to the CPO or on form CCC-1245 (440-V-CPM, First Edition, Amend. 1, Feb. 1999, 515.112b). The CCC-1245 was completed for this contract item, which contained 3 tanks, on September 29, 1998 for 2 tanks that were completed as scheduled. Additional documentation in the case file reveals that, through normal follow-up activities, the 3<sup>rd</sup> tank was installed at a later date and accounted for.

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**Audit Result 3: DOCUMENTATION WAS NOT MAINTAINED**

**Response:** Recent internal Nebraska NRCS quality assurance activities has resulted in better data to address the concerns cited. Appropriate actions and controls will be implemented to address this concern. In January 2002, I established a Quality Assurance Team consisting of four positions under the supervision of the ASTC/Field Operations. This team has specific responsibilities to address these types of issues. As with any new position it has taken time to develop the protocols and policy to implement the Quality Assurance Teams activities. Concerning the example cited, General Manual, 330, Part 405 has been updated at the state level and is currently in final review for posting. This state level update to the General Manual clarifies the requirements, documentation and filing procedures for quality assurance activities.

**Audit Result 4: REVIEW PROCESS IN QUESTION**

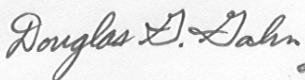
**Response:** The process described is our current policy. In review of the situation cited:

1. The August 14, 2000 letter was delivered from the Field Office to the landowner with alternatives to handle the situation at the Field Office level.
2. When the situation was not able to be resolved at the Field Office level, the process was elevated to the District Conservationist level.
3. The District Conservationist followed appropriate protocol to investigate and resolve the situation.
4. Since the situation was outside of the District Conservationist's specialty, the appropriate specialist was utilized to evaluate the concern.
5. The specialist relayed his recommendation to the District Conservationist.
6. The District Conservationist made a final determination concerning the situation using all available information.

This process is no different than when a concern is elevated to the State Office level. I, as the State Conservationist, call on the appropriate specialist to evaluate the concern if it was outside of my area of specialty.

This concludes the response to Audit Report No. 10005-1-KC. If you need further information for any items, please feel free to contact me.

Sincerely,

  
STEPHEN K. CHICK  
State Conservationist

*AGING*