



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

NATURAL RESOURCES CONSERVATION SERVICE
CONTROLS OVER FUNDS
CONGRESSIONALLY EARMARKED FOR
CONSERVATION PROJECTS



Report No.
10601-6-Te
SEPTEMBER 2002



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



DATE: September 24, 2002

REPLY TO
ATTN OF: 10601-6-Te

SUBJECT: Controls Over Funds Congressionally Earmarked for
Conservation Projects

TO: Bruce Knight
Chief
Natural Resources Conservation Service

ATTN: Dana York
Director
Operations Management and Oversight Division

This report presents the results of our review of controls over congressionally earmarked funds. The Natural Resources Conservation Service's response to the draft report is included in exhibit B and incorporated, along with the Office of Inspector General's position, into the relevant sections of the report.

Management decision has been reached for both Recommendations Nos. 1 and 2. Please note that Departmental Regulation 1720-1 requires final action to be taken within 1 year of the management decision. Follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer, Planning and Accountability Division.

We appreciate the courtesies and cooperation extended to us by your staff and their work in reaching management decisions on the recommendations

/s/ R. D. Long
RICHARD D. LONG
Assistant Inspector General
for Audit

EXECUTIVE SUMMARY

NATURAL RESOURCES CONSERVATION SERVICE CONTROLS OVER FUNDS CONGRESSIONALLY EARMARKED FOR CONSERVATION PROJECTS REPORT NO. 10601-6-Te

RESULTS IN BRIEF

This report presents the results of our review of the Natural Resources Conservation Service's (NRCS) controls over funds earmarked by Congress for specific conservation projects. NRCS' mission is to provide Federal leadership in a partnership effort to help States and local groups conserve, sustain, and improve the Nation's natural resources and environment. This partnership effort focuses on erosion reduction, wetland restoration and protection, water-quality improvement, fish and wildlife habitat improvement, and other conservation practices.

The objective of our review was to determine whether NRCS had controls in place to ensure that congressionally earmarked funds were used for the purposes stipulated in the statutes authorizing the expenditures. We reviewed two conservation projects, one in Mississippi and one in Louisiana.

We did not find any instances in which earmarked funds were used for unauthorized purposes; however, we determined that not all States tracked their funds adequately to account for how the funds were spent. Specifically, the Mississippi State NRCS allocated over 20 percent of a \$10 million dam project to in-house technical assistance funds but was maintaining no documentation to track costs charged to these specific funds. The NRCS National Office had not developed uniform procedures that required States to account specifically for all expenditures of congressionally earmarked funds and it did not monitor the States to ensure they had some procedures in place. As of March 2001, the Mississippi State NRCS could not account for approximately \$2.24 million authorized for the construction of the dam.

The Director of Conservation Operations confirmed that the NRCS National Office has not developed a uniform system of accounting for congressionally earmarked funds. However, he stated that NRCS State Conservationists are ultimately responsible for fund integrity

and need to track the costs of technical assistance as well as the costs of contract construction. The requirement for these fund controls is contained in the national office directive that releases the funds to the States. For the second initiative we reviewed, erosion control in the State of Louisiana, the NRCS State Office did maintain its own accounting records identifying actual expenses associated with the \$425,000 in earmarked funds it received. An ongoing record of expenses allowed the State Conservationist to control potential cost overruns and ensure that funds were used for the purpose intended by Congress. We question whether Mississippi, which did not track in-house project expenses, could offer similar assurances on its much more costly dam project.

Although NRCS is currently in the process of establishing four new databases to improve its accountability of fund expenditures, none of these databases is being designed to track congressionally earmarked funds. We concluded that NRCS should take advantage of an available tracking system, the Foundation Financial Information System (FFIS). This department-wide system was developed to account for expenditures of appropriated funds and with some modification can include congressionally earmarked funds.

The Director of Conservation Operations agreed that the proper accounting of the expenditures of congressionally earmarked funds needed to be addressed, and he stressed his willingness to work towards resolving this issue nationwide. Similarly, NRCS' Chief Financial Officer stated that he was prepared to work on strengthening the management accounting system to more effectively track expenditure of these funds.

KEY RECOMMENDATIONS

We recommend that the NRCS National Office implement a management accounting system to effectively track expenses associated with congressionally earmarked funding. In addition, the national office should conduct reviews, as deemed necessary, to ensure State Conservationists are accounting for expenditures of congressionally earmarked funds in a timely and accurate manner.

AGENCY RESPONSE

NRCS agreed to implement a management accounting system to track all expenses associated with congressionally earmarked funds and will review the system design with OIG before implementation. Additionally, NRCS agreed to include, as part of the scheduled administrative reviews, a review of congressionally

earmarked funds to ensure that the use of the funds is being accounted for in a timely manner. Action on the recommendations will be taken by August 1, 2003.

OIG POSITION

We agree with the management decisions for Recommendations Nos. 1 and 2. For final action, provide the Office of the Chief Financial Officer (OCFO) documentation indicating NRCS has implemented the management accounting system and initiated administrative reviews to ensure congressionally earmarked funds are properly accounted for.

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INTRODUCTION

BACKGROUND

The NRCS was established by the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994. NRCS' mission is to provide national leadership in a partnership effort to help States and local groups conserve, improve, and sustain the Nation's natural resources and environment. NRCS provides technical assistance on request through local conservation districts to land users, watershed groups, and Federal and State agencies and other cooperators. The agency's work focuses on erosion reduction, wetland restoration and protection, water quality improvement, fish and wildlife habitat improvement, and other conservation and natural resource practices.

Over the years, NRCS has been the recipient of both appropriated funds and congressionally earmarked funds. Earmarked funds are those dedicated for a specific program or purpose, such as erosion control in a particular State or the construction of a dam along a particular river. Congressionally earmarked funds are included in the appropriations acts but must be expended only for the program or purpose stipulated in the statute and explained in the Senate and House Appropriations Committees' reports.

The Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1999 (Public Law 105-277) provided over \$641 million for carrying out conservation operations. NRCS records identified about \$17 million of these appropriations as congressional earmarks.

In April 2000, the General Accounting Office (GAO) released a report, Additional Actions Needed to Strengthen Program and Financial Accountability (GAO/RCED-00-83), concerning NRCS' accountability for how it spends its funds and what it has accomplished. According to GAO, NRCS' new approach to improving accountability is based principally on implementing the requirements of the Government Performance and Results Act of 1993 (Results Act) and establishing four new databases to compile better information on: (1) the agency's accomplishments, (2) the full cost of programs and activities, (3) workloads at the local level, and (4) future workforce needs.

GAO reported that NRCS' new approach had not been fully implemented and that it was too early to determine the extent to which the approach would improve accountability. The databases did not yet contain all the data NRCS planned to include, and NRCS had not completed verification and validation efforts to ensure that the data was credible. The report stated that these efforts are likely to take a year or longer.

Also available to NRCS as an accounting system is FFIS. This system was developed by the U.S. Department of Agriculture in fiscal year (FY) 1998 to provide department-wide tracking of fund expenditures. NRCS joined FFIS in FY 2001. In its current application, FFIS identifies costs by fund codes (e.g., restricted funds) and by object classes (e.g., erosion control), but it must be modified to accommodate further classes.

OBJECTIVES

Our objective was to determine whether NRCS had controls in place to ensure that congressionally earmarked funds were used for the purposes stipulated in the statutes

authorizing the expenditures.

SCOPE

We performed our review at the NRCS National Office in Washington, D.C., and two judgmentally selected States (Mississippi and Louisiana), in which we reviewed program

expenditures. Fieldwork was performed during November 2000 through March 2001. The earmarked funds selected for review were appropriated by Congress in FY 1999 for conservation projects that continued through FY's 2000 and 2001.

Among the 52 States and territories, Mississippi ranked second in FY 1999 conservation operations appropriations, with a total of \$21,796,967, and first in FY 1999 congressional earmarks, with a total of \$6,750,000. Louisiana ranked 27th with \$9,915,301 for conservation operations, and \$425,000 for congressional earmarks. We selected Mississippi because its earmarked funding was the largest for FY 1999. We selected Louisiana because it was nearby and because its funding was more representative of States nationwide.

At the selected NRCS State Offices, we tested a sample of expenditures associated with conservation operations in one or more of the following categories: technical assistance, soil survey, water quality, snow survey, and plant materials to determine that funds were expended for appropriate purposes. We focused our review in Mississippi on expenditures associated with a \$6,000,000 congressional earmark for the construction

of a dam.¹ In Louisiana, we reviewed \$425,000 of funds congressionally earmarked for erosion control.

This review was conducted in accordance with the government auditing standards issued by the Comptroller General of the United States. Accordingly, the survey includes such tests of program and accounting records as considered necessary to meet the survey objectives.

METHODOLOGY

To accomplish the objective, we interviewed NRCS National Office personnel and reviewed laws, policies, procedures, and regulations applicable to NRCS conservation operations.

At the State offices, we identified and evaluated management controls to ensure congressionally earmarked funds were expended for authorized purposes. We reviewed expenditures in each sample State by analyzing financial and administrative records, conducting interviews, and performing site visits as deemed necessary, to satisfy the survey objectives.

¹ Subsequent earmarks and donations brought the total available funding for the dam to \$10.5 million.

FINDINGS AND RECOMMENDATIONS

CHAPTER 1	NOT ALL STATES COULD ADEQUATELY ACCOUNT FOR HOW CONGRESSIONALLY EARMARKED FUNDS WERE SPENT
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FINDING NO. 1

One of the two States reviewed had not tracked its use of congressionally earmarked funds to account for how the funds were spent. The Mississippi State NRCS allocated over 20 percent of a \$10 million dam project to

in-house technical assistance funds but was maintaining no documentation to support costs incurred against those funds, even though the project was funded largely by earmarked appropriations. Although the NRCS National Office informed the States they were responsible for tracking the costs, it had not developed and disseminated uniform procedures to ensure the States fulfilled this responsibility. The national office also did not monitor the States to ensure some system was in place to account for earmarked funds. As a result of the lack of cost support in Mississippi, as of March 2001 that State could not specifically account for approximately \$2.24 million allocated for the construction of the dam.

Annually, the NRCS National Office sends each State Conservationist notification of that State's fiscal year allocations for program purposes and a listing of what the national office considers to be the State's congressional earmarks. The notification of allocations includes a directive, signed by the Chief of the NRCS, summarizing each State Conservationist's specific responsibilities. The Conservationists are directed: (1) to ensure that the resources are distributed and used for the purposes intended by Congress, (2) to limit obligations or expenditures to amounts available, and (3) to ensure that the use of the funds are accounted for in a timely and accurate manner. However, the directive does not outline a specific method of recordkeeping to be used by States receiving earmarked funds.

For FY 1999, the Mississippi NRCS received a congressional earmark totaling \$6 million for the construction of a dam in Franklin County, Mississippi. The FY 1999 congressional earmark included a carryover from FY 1998 of \$3 million. In addition, the Mississippi NRCS continued to receive congressional earmarks for this project in both FY's 2000 and 2001 totaling \$1 million and \$1.5 million, respectively.

Finally, the Forest Service contributed \$2 million to the project. Overall available funding totaled \$10.5 million.

The contract to construct the dam was awarded to a private contractor at an initial bid of approximately \$6.9 million. As of March 2001, modifications to the construction contract have increased the expected total payments to the contractor to approximately \$8.26 million. The remaining \$2.24 million (21 percent of the total available funds) is expected to cover the NRCS' internal expenses for quality control (i.e., employees' salaries and support).

During our review of selected conservation operations expenditures, we became cognizant of NRCS' lack of accounting records to identify internal expenses for quality control (employees' salaries and support) associated with the congressional earmark. The Mississippi NRCS provided records to support the payment of over \$767,000 to the contractor, but it was unable to provide records to support the dollar amount of internal expenses attributable to the dam project.

Mississippi NRCS officials stated that accounting records had not been prepared to track the earmarked funds because those funds were in the total conservation operations technical assistance allocation. From the State's perspective, keeping track of in-house expenditures for the dam was unnecessary because recurring contract modifications indicated that all the funds would probably be spent. The Assistant State Conservationist stated that NRCS was obligated to complete the dam, whether or not Congress had sufficiently funded it.

We also reviewed FY 1999 congressional earmarks totaling \$425,000 for erosion control on the Louisiana gulf coast. Louisiana State NRCS officials were maintaining accounting records that identified the expenditures of the earmarked funds. The State officials recognized the importance of ensuring fund integrity and used the expense records to monitor the progress of each project. However, the officials were not aware of any recordkeeping requirements handed down from the national office for congressionally earmarked funds.

Mississippi NRCS officials were also unaware of any requirements for tracking earmarked funds. They stated that the only fund accounting requirement within NRCS involved the use of FFIS. FFIS, a department-wide system, accounts for conservation operations funding in technical assistance, soil survey, water quality, snow survey, and plant materials. FFIS has no method of accounting specifically for expenditures of congressionally earmarked funds.

In response to criticism by the Government Accounting Office of NRCS' accountability of appropriated funds, NRCS began to develop four new databases to compile cost information for the annual performance plan. These systems are still in the development stage, but we were informed that they are not being designed to account for earmarked funds and will not do so when placed in operation.

The Director of Conservation Operations at the NRCS National Office assured us that NRCS State Conservationists are ultimately responsible for fund integrity and that the national office emphasizes this each year when it transmits the FY funding allowances to the States. However, he also confirmed that the national office does not review the States' accounting of congressionally earmarked funds and has not assisted the States in their recordkeeping responsibilities by developing a uniform system to account for these funds. Concerning FFIS' potential use as an accounting tool, the national office's Chief Financial Officer agreed that the system does not specifically record expenditures of congressionally earmarked funds, but stated that FFIS could be modified to include additional object classes to account for the funds.

Regarding the State NRCS' comment that tracking in-house expenditures was unnecessary, we question whether the State can know with any certainty that it will spend all \$10.5 million on the construction of the dam, or that it will incur \$2.24 million in in-house costs. Moreover, tracking expenses does not merely guard against cost overruns; it provides a basis for demonstrating that more funds are needed to complete the project. An effective management accounting system that tracks all costs charged to a congressionally earmarked project would allow the State office to return to Congress with the information needed to support a request for additional money when the original earmarked amount was exhausted.

The Director of Conservation Operations agreed that the proper accounting of the expenditures of congressionally earmarked funds needed to be addressed. Both he and NRCS' Chief Financial Officer expressed a willingness to work on strengthening the management accounting system to effectively track expenditures of these funds.

RECOMMENDATION NO. 1

Implement a management accounting system to track all expenses associated with congressionally earmarked funds.

NRCS Response

NRCS agrees to implement a management accounting system to track all expenses associated with congressionally earmarked funds. NRCS will review the system design with OIG before implementation, and action will be taken by August 1, 2003.

OIG Position

We agree with the management decision. For final action, provide OCFO documentation indicating NRCS has implemented the management accounting system to tract expenses associated with congressionally earmarked funding.

RECOMMENDATION NO. 2

Conduct reviews, as deemed necessary, to ensure State Conservationists are accounting for the use of congressionally earmarked funds in a timely and accurate manner.

NRCS Response

NRCS agrees to include a review of congressionally earmarked funds to ensure that the use of the funds is being accounted for in a timely manner. The element will be addressed as part of the scheduled administrative reviews, and action will be taken by August 1, 2003.

OIG Position

We agree with the management decision. For final action, provide OCFO documentation indicating NRCS has implemented administrative reviews to ensure State Conservationists are accounting for the use of congressionally earmarked funds in a timely and accurate manner.

EXHIBIT A - SUMMARY OF MONETARY RESULTS

RECOMMENDATION NUMBER	DESCRIPTION	AMOUNT	CATEGORY
1	Incomplete Accounting Records	\$2,240,000	Other – Accounting Classification Errors
TOTAL		\$2,240,000	

EXHIBIT B – NRCS' RESPONSE TO DRAFT REPORT

United States Department of Agriculture



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

SUBJECT: Office of Inspector General (OIG) 10601-6-TE--Controls
Over Funds Congressionally Earmarked For Conservation Projects

TO: Richard D. Long
Assistant Inspector General for Audit
Office of Inspector General

AUG 20 2002

The following is in response to the official draft of the OIG 10601-6-TE--Controls Over Funds Congressionally Earmarked for Conservation Projects Audit.

Recommendation 1:

The Natural Resources Conservation Service (NRCS) agrees to implement a management accounting system to track all expenses associated with congressionally-earmarked funds. NRCS will review the system design with the Office of Inspector General (OIG) before implementation. This action will be taken by August 1, 2003.

Recommendation 2:

NRCS agrees to include a review of congressionally-earmarked funds to ensure that the use of the funds is being accounted for in a timely manner. The element will be addressed as part of the scheduled administrative reviews. This action will be taken by August 1, 2003.

If you have specific questions, please contact Dana York, Director, Operations Management and Oversight Division, at (202) 720-8388.

A handwritten signature in cursive script, appearing to read "P. Dwight Holman".

P. DWIGHT HOLMAN
Deputy Chief for Management

