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U.S. DEPARTMENT OF AGRICULTURE

Improved Management Controls Can Enhance Effectiveness of Key Conservation Programs

Statement of Lisa Shames, Director
Natural Resources and Environment

GAO Accountability·Integrity·Reliability

Highlights

Highlights of GAO-09-528T, testimony before the Subcommittee on Conservation, Credit, Energy and Research, House Committee on Agriculture

Why GAO Did This Study

The U.S. Department of Agriculture (USDA) administers conservation programs, such as the Conservation Stewardship Program (CSP, formerly the Conservation Security Program) and the Environmental Quality Incentives Program (EQIP), to help farmers reduce soil erosion, enhance water supply and quality, and increase wildlife habitat, among other things.

This testimony is based on GAO reports on CSP and EQIP, each issued in 2006, and a 2008 report on farm program payments. It discusses (1) the potential for duplicate payments between CSP and other conservation programs, (2) USDA's process for allocating EQIP funds to the states to optimize environmental benefits, and (3) USDA's management controls over farm program payments.

What GAO Recommends

Among other things, GAO recommended that USDA (1) develop a comprehensive process to preclude and identify duplicate payments between CSP and other conservation programs, (2) take steps to improve the EQIP general financial assistance formula, and (3) work with the Internal Revenue Service (IRS) to develop a method for determining whether all recipients of farm program payments meet income eligibility requirements. USDA agreed with these recommendations and has taken actions to implement them, but GAO has not assessed the effectiveness of these actions.

View GAO-09-528T or key components.
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March 25, 2009

U.S. DEPARTMENT OF AGRICULTURE

Improved Management Controls Can Enhance Effectiveness of Key Conservation Programs

What GAO Found

While legislative and regulatory measures are in place to reduce the possibility of duplicate payments, the potential still exists because CSP and other USDA conservation programs may be used to finance similar conservation activities. GAO previously reported that USDA did not have a comprehensive process to preclude or identify such duplicate payments, and GAO found a number of instances of duplicate payments. USDA was unaware of this duplication. However, USDA has since updated its contracting software to identify potential duplication and issued written guidance to its field offices outlining measures to preclude duplicate payments. As a result, USDA said that it has identified about 760 examples of potential or actual duplicate payments since fiscal year 2004 totaling about $1 million, and has taken action to preclude or recover these payments, as appropriate.

GAO previously reported that USDA's process for allocating EQIP funds was not clearly linked to the program's purpose of optimizing environmental benefits. Therefore, USDA may not have directed funds to states with the most significant environmental concerns arising from agricultural production. To allocate most EQIP funds, USDA uses a general financial assistance formula that consists of 31 factors and weights. However, USDA did not have a documented rationale for how each factor contributes to accomplishing the program's purpose; some of the formula's data was questionable or outdated; and the funding allocation process was not linked to USDA's long-term performance measures. For fiscal year 2009, USDA has issued updated guidance for this formula that appears to address a number of these elements.

GAO reported that USDA does not have adequate management controls in place to verify that farm program payments, including those for conservation programs, are made only to individuals who do not exceed income eligibility caps. As a result, USDA cannot be assured that millions of dollars in farm payments are proper. GAO found that $49.4 million in farm payments were made to about 2,700 potentially ineligible individuals between fiscal years 2003 and 2006. About 6 percent of this amount was for EQIP payments; 29 percent was for the Conservation Reserve Program, a program that pays farmers to retire environmentally-sensitive cropland. The need for management controls will remain critical, since recent legislation lowered the income eligibility caps and makes the number of individuals whose income exceeds these caps likely to rise. In March 2009, USDA announced that it has begun working with IRS to ensure that high-income individuals and entities who request farm payments meet income limits as set forth in law, and that once this verification system is fully operational, it should identify inappropriate payments before they are disbursed. As GAO has previously reported, ensuring the integrity and equity of farm programs is a key area needing enhanced congressional oversight. Such oversight can help ensure that conservation programs benefit the agricultural sector as intended and protect rural areas from land degradation, diminished water and air quality, and loss of wildlife habitat.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss our work on the U.S. Department of Agriculture's (USDA) management of its conservation programs designed to help farmers be better stewards of our natural resources. Under these programs, primarily the Conservation Stewardship Program (CSP, formerly the Conservation Security Program) and the Environmental Quality Incentives Program (EQIP), USDA and producers (farmers and ranchers) enter into contracts to implement practices to reduce soil erosion, enhance water supply and quality, and increase wildlife habitat, among other things. These conservation programs are administered by USDA's Natural Resources Conservation Service (NRCS). Another USDA agency, the Farm Service Agency (FSA), is responsible for ensuring that only individuals who meet certain eligibility criteria receive federal farm program payments, including payments for many conservation programs.

As you know, farmers and ranchers own or manage about 940 million acres, or about half of the continental United States' land area, and thus they are among the most important stewards of our soil, water, and wildlife habitat. USDA's conservation programs, which provide billions of dollars in assistance each year, are a key resource in promoting this environmental stewardship. Therefore, it is essential that they be managed effectively and efficiently and that they be adequately overseen to assure that payments are provided only to eligible individuals. We are eager to assist the 111th Congress in meeting its oversight agenda. To that end, we have recommended that ensuring the integrity and equity of the farm programs is a key area needing congressional oversight.[1]

My testimony today is based on our reports on CSP, EQIP, and federal farm program payments.[2] I will focus on three primary issues discussed in

[1]GAO, *Suggested Areas for Oversight for the 110th Congress*, GAO-07-235R (Washington, D.C.: Nov. 17, 2006).

[2]GAO, *Conservation Security Program: Despite Cost Controls, Improved USDA Management Is Needed to Ensure Proper Payments and Reduce Duplication with Other Programs*, GAO-06-312 (Washington, D.C.: Apr. 28, 2006). GAO, *Agricultural Conservation: USDA Should Improve Its Process for Allocating Funds to States for the Environmental Quality Incentives Program*, GAO-06-969 (Washington, D.C.: Sept. 22, 2006). GAO, *Federal Farm Programs: USDA Needs to Strengthen Controls to Prevent Payments to Individuals Who Exceed Income Eligibility Limits*, GAO-09-67 (Washington, D.C.: Oct. 24, 2008). Copies of the Highlights pages for these reports are attached to this statement.

these reports: (1) the potential for duplicate payments under CSP and other USDA conservation programs for similar conservation activities, (2) NRCS's process for allocating EQIP funds to the states to optimize environmental benefits, and (3) FSA's efforts to ensure the integrity of farm program payments, including payments for conservation. To perform this work, we reviewed relevant statutory provisions, NRCS, FSA, and other USDA regulations, program documentation, guidelines for implementing EQIP and CSP, and guidance for making farm program payments. We also analyzed data on farm program payments, producer income, and funding allocated to the states under EQIP and to priority watersheds under the Conservation Security Program. In addition, we spoke with officials at NRCS, FSA, other USDA offices, and the Internal Revenue Service (IRS). We conducted our work in accordance with generally accepted government auditing standards.

In summary, USDA has taken a number of actions to address our recommendations to improve its management of these conservation programs and the integrity of farm program payments. Specifically:

- Regarding CSP, we reported that duplicate payments had occurred despite legislative and regulatory measures that were to reduce the potential for duplication between CSP and other programs. We recommended that NRCS develop a process to preclude further duplicate payments as well as to identify and recover past duplicate payments. In response, NRCS updated its contracting software to identify potential duplication and issued written guidance to its field offices in October 2006 outlining measures to preclude duplicate payments. As a result, NRCS reportedly has identified 760 examples of potential or actual duplicate payments since fiscal year 2004 totaling nearly $1 million, and has taken action to preclude or recover these payments, as appropriate.

- Regarding EQIP, we reported that NRCS's formula for allocating financial assistance, which accounts for most of the funding provided to the states, does not link to the program's purpose of optimizing environmental benefits. We recommended that NRCS ensure that the rationale for the formula's factors and weights used to determine the state allocations is documented and linked to program priorities, and that data sources used in the formula are accurate and current. We also recommended that NRCS use information from long-term performance measures to further revise the formula to ensure funds are directed to areas of highest priority. In response, in January 2009, NRCS issued updated guidance for its EQIP funding allocation formula that appears to address a number of the elements raised in our recommendation.

- Regarding the integrity of farm program payments, we reported that USDA cannot be certain that millions of dollars in farm program payments, including conservation payments, it made are proper because it does not have management controls to verify that payments are made only to individuals who did not exceed income eligibility caps. We recommended that FSA work with IRS to develop a method for determining whether all recipients of farm payments meet income eligibility criteria. In response, USDA announced last week that it has begun working with IRS to ensure that high-income individuals and entities who request farm program payments meet income limits as set forth in law. According to USDA, once this verification system is fully operational, it should identify inappropriate payments before they are disbursed.

While these are positive steps, we have not evaluated their effectiveness. In the latter two cases, the agency actions to implement our recommendations are so recent that there is little or no basis yet to do this evaluation.

Legislative and Regulatory Measures Reduce the Potential for Duplication between CSP and Other Programs, but Duplicate Payments Have Occurred

EQIP provides assistance to farmers and ranchers to take new actions aimed at addressing identified conservation problems. CSP rewards farmers and ranchers who already meet very high standards of conservation and environmental management in their operations. Farm bill provisions and NRCS regulations are designed to reduce the potential for duplication between CSP and other USDA conservation programs, such as EQIP. For example, the Farm Security and Rural Investment Act of 2002 (2002 farm bill) and the Food, Conservation, and Energy Act of 2008 (2008 farm bill)[3]

- provide that CSP may reward producers for maintaining conservation practices that they have already undertaken, whereas other programs generally provide assistance to encourage producers to take new actions to address conservation problems on working lands or to idle or retire environmentally sensitive land from agricultural production; and

- explicitly prohibit (1) duplicate payments under CSP and other conservation programs for the same practice on the same land and (2) CSP

[3]The Conservation Security Program was originally authorized in the 2002 farm bill and included measures to reduce the potential for duplication with other USDA conservation programs. Similar measures are also included in the Conservation Stewardship Program authorized in the 2008 farm bill.

payments for certain activities that can be funded under other conservation programs, such as the construction or maintenance of animal waste storage or treatment facilities.

USDA has also issued CSP regulations that can prevent duplicate payments between CSP and other conservation programs. For example, the regulations

- establish higher minimum eligibility standards for CSP than for other programs, which help to differentiate the applicant pool for CSP from the potential applicants for these other programs; and
- encourage CSP participants to implement conservation actions, known as enhancements, to achieve a level of treatment that generally exceeds the level required by other USDA conservation programs.

Despite these legislative and regulatory measures, we reported in 2006 that the potential for duplicate payments still existed because of similarities in conservation actions financed through CSP and other programs. At that time, we found that duplicate payments had occurred. Our analysis of fiscal year 2004 payments data showed 72 producers who received payments under CSP and EQIP that appeared to be for similar conservation actions. Of these, we examined 11 cases in detail and found duplicate payments had occurred 8 times. For example, four of these duplicate payments were made to producers who received a CSP enhancement payment and an EQIP payment for conservation actions that appeared to be similar. In one of these cases, a producer received a CSP pest management enhancement payment of $9,160 and an EQIP payment of $795 on the same parcel of land for the same conservation action—conservation crop rotation.

NRCS state officials agreed that the payments made in these four cases were duplicates. They stated that they were unaware that such duplication was occurring and that they would inform their district offices of it. At the time of our report, NRCS headquarters officials stated that the agency lacked a comprehensive process to either preclude duplicate payments or identify them after a contract has been awarded. Instead, these officials said, as a guard against potential duplication, NRCS relied on the institutional knowledge of its field staff and the records they keep.

NRCS has the authority to recover duplicate payments. Under a CSP contract, as required in the 2002 and 2008 farm bills, a producer agrees that if the producer violates any term or condition of the contract, the producer is to refund payments and forfeit all rights to receive payments or is to refund or accept adjustments to payments, depending on whether the Secretary of Agriculture determines that termination of the contract and return of payments is or is not warranted, respectively.

Duplicate payments reduce program effectiveness and, because of limited funding, may result in some producers not receiving program benefits for which they are otherwise eligible. For these reasons, we recommended that the Secretary of Agriculture direct the Chief of NRCS to develop processes to review (1) CSP contract applications to ensure that CSP payments, if awarded, would not duplicate payments made by other USDA conservation programs and (2) existing CSP contracts to identify cases where CSP payments duplicate payments made under other programs and take action to recover appropriate amounts and to ensure that these duplicate payments are not repeated in fiscal year 2006 and beyond.

Regarding the first recommendation, in July 2006, NRCS said it had created an automated system within its contracting software to conduct a comparison between new CSP applications and existing contracts for other conservation programs to reveal potential duplication. In addition, in October 2006, NRCS issued a national bulletin to its field staff describing measures needed to preclude duplicate payments. According to the bulletin, NRCS conducted a comparison between existing contracts for several conservation programs, including EQIP, and fiscal year 2006 CSP applications to identify potential duplication. This comparison found 81 potential duplicate payments for conservation practices. NRCS said it adjusted the CSP applications to prevent these duplicate payments. Furthermore, NRCS indicated that starting with the fiscal year 2006 CSP sign-up, it would require applicants to complete a form that asks an applicant to identify any payments the applicant receives under another conservation program on any of the land being offered for enrollment in CSP. While these actions are positive steps, we have not assessed their effectiveness.

Regarding the second recommendation, NRCS indicated it would use its contracting software to compare existing CSP contracts with existing contracts for EQIP and other conservation programs. Specifically, according to NRCS's national bulletin, its field offices are to compare CSP contract enhancement activities with the practices financed under other conservation program contracts to determine whether duplicate payments are planned in fiscal year 2007 and beyond, or if duplicate payments occurred during fiscal years 2004 through 2006. NRCS said that all identified duplicate payments would be dealt with according to the NRCS contracting manual. According to NRCS officials, the agency did not have a CSP sign-up in 2007, so there were no new applications that year. In 2008, NRCS received about 2,300 CSP applications, but agency officials said they did not have information on potential duplicate payments. For 2004 to 2006, NRCS officials said the agency found 371 duplicate payments between CSP and EQIP totaling about $420,000. These officials did not have information on the amount of these payments recovered, but noted that they represented less than 1 percent of total CSP payments made during these years. Furthermore, NRCS officials stated the agency found 389 scheduled payments totaling about $520,000 under these programs that would have been duplicates. NRCS was able to preclude these payments from being made.

NRCS's Process for Allocating EQIP Funds to the States Does Not Link to the Program's Purpose of Optimizing Environmental Benefits

In 2006, we reported that NRCS's process for providing EQIP funds to the states is not clearly linked to the program's purpose of optimizing environmental benefits. Specifically, we found that NRCS's general financial assistance formula, which accounts for approximately two-thirds of funding provided to the states, did not have a documented rationale for each of the formula's factors and weights, which are used to determine the allocation of funds to the states to address environmental issues. In addition, the formula sometimes relied on questionable and outdated data. As a result, NRCS may not have been directing EQIP funds to states with the most significant environmental concerns arising from agricultural production.

More specifically, in fiscal year 2006, approximately 65 percent of EQIP funds were allocated using a general financial assistance formula. This formula contained 31 factors related to the availability of natural resources and the presence of environmental concerns, such as acres of wetlands and at-risk species habitat, pesticide and nitrogen runoff, and the ratio of commercial fertilizers to cropland. NRCS assigns each of the formula's factors a weight. Factors with the highest weights included acres of highly erodible cropland, acres of fair and poor rangeland, the quantity of livestock, and the quantity of animal waste generated.

At the time of our report, NRCS had periodically modified factors and weights to emphasize different national priorities, such as in fiscal year 2004, following the passage of the 2002 farm bill. However, NRCS had not documented the basis for its decisions on the formula factors and weights or explained how they achieve the program's purpose of optimizing environmental benefits. Thus, it was not always clear whether the formula's factors and weights directed funds to the states as effectively as possible.

Small differences in the weights can shift the amount of financial assistance directed at a particular concern. For example, in 2006, if the weight of any of the 31 factors had increased by 1 percent, $6.5 million would have been shifted at the expense of one or more other factors. The potential for the weights to significantly affect the amount of funding a state receives underscores the importance of having a well-founded rationale for assigning them.

We also reported that weaknesses in the financial assistance formula were compounded by NRCS's use of questionable and outdated data. First, 5 of the 29 data sources in the financial assistance formula were used more than once for separate factors. Using the same data for multiple factors may result in more emphasis being placed on certain environmental concerns than intended. Second, NRCS could not confirm the source of data used in 10 factors in the formula; as such, we could not determine the accuracy of the data, verify how NRCS generated the data, or fully understand the basis on which the agency allocates funding. Third, NRCS did not use the most current data for six factors in the formula.

Finally, we reported that NRCS had begun to develop more long-term, outcome-oriented performance measures to assess changes to the environment resulting from EQIP practices as part of its 2005 strategic planning effort. These measures included such things as reducing sediment runoff from farms, improving soil conditions on working cropland, and increasing water conservation. NRCS also included proposed targets for each measure to be achieved by 2010, such as reducing sediment runoff by 18.5 million tons annually. At the time of our report, NRCS told us it had developed baselines for these performance measures, and planned to assess and report on them once computer models and other data collection methods that estimate environmental change were completed.

Although we did not assess the comprehensiveness of the EQIP performance measures, the additional information they provide about the results of EQIP outcomes should allow NRCS to better gauge program performance. As a next step, such information could also help the agency refine its process for allocating funds to the states through its general financial assistance formula by directing funds toward practices that address unrealized performance targets and areas of the country that need the most improvement. The Chief of NRCS's Environmental Improvement

Programs Branch agreed that information about program performance might eventually be linked to the EQIP funding allocation process. However, at the time of our report, the agency did not have plans to make this linkage.

Because of our concerns about the general financial assistance formula, we recommended that NRCS ensure its rationale for the factors and weights was documented and addressed program priorities, and the data sources used in the formula were accurate and current. We also recommended that the Secretary of Agriculture direct NRCS to continue to analyze current and newly developed long-term performance measures for EQIP and use this information to make further revisions to the financial assistance formula to ensure funds are directed to areas of highest priority.

Since our report, NRCS has made progress in implementing our recommendations by modifying its financial assistance formula for the fiscal year 2009 EQIP state allocation. In 2007, an outside consultant hired by NRCS concluded that NRCS should take a number of steps to improve its conservation program formulas, including improving their analytical soundness, making the process more transparent, and integrating performance information into the formulas. NRCS reviewed the EQIP formula and made changes prior to its 2009 allocation, including modifying the factors and weights, and updating some data sources. NRCS also described how factors in the formula relate to a number of EQIP and NRCS performance measures. While NRCS's actions are positive steps, we have not assessed whether they fully address our recommendations.

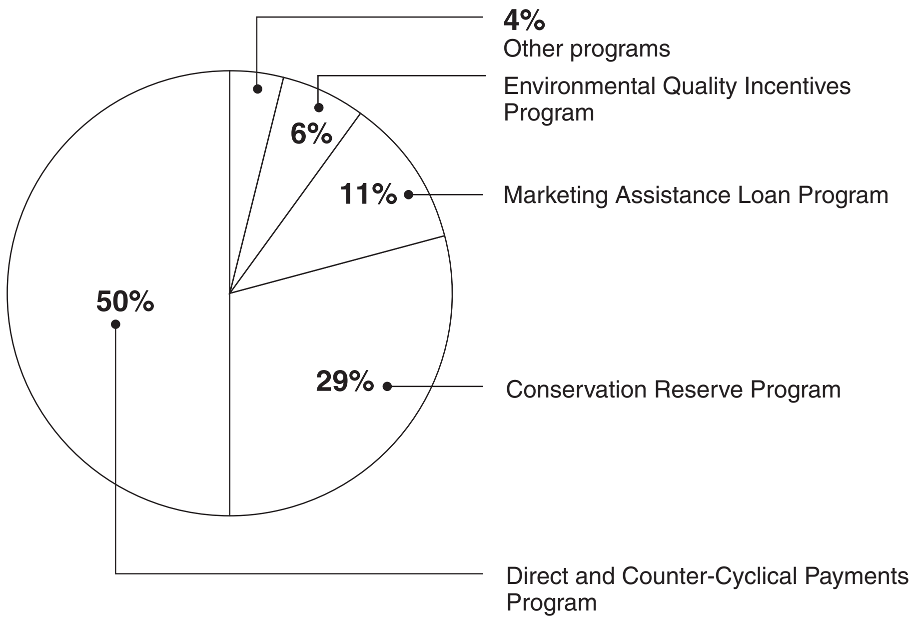
Additional USDA Management Controls Could Provide More Assurance of Conservation Program Integrity

Additional management controls by USDA's FSA could provide more assurance of the conservation programs' integrity by ensuring conservation payments are awarded only to individuals who meet income eligibility requirements.[4] In October 2008 we reported that USDA cannot be certain that millions of dollars in farm program payments it made are proper, because it does not have management controls, such as reviewing an appropriate sample of recipients' tax returns, to verify that payments were made only to individuals who did not exceed the income eligibility caps. We determined that $49.4 million in farm payments were made to about 2,700 potentially ineligible individuals between fiscal year 2003 and fiscal year 2006. These recipients included a founder and former executive of an insurance company, an individual with ownership interest in a professional sports franchise, a top executive of a major financial services company, a former executive of a technology company, and individuals residing outside the United States.

As shown in figure 1, about 6 percent of the $49.4 million was for EQIP payments and 29 percent was for the Conservation Reserve Program. Payments made under the "other programs" category included payments made for other NRCS conservation programs, such as CSP, the Grassland Reserve Program, Wetlands Reserve Program, and Wildlife Habitat Incentives Program.

[4] Although these limits changed in the 2008 Farm Bill, under the 2002 Farm Bill, an individual or entity with an average adjusted gross income (AGI) of over $2.5 million, over the previous 3 tax years immediately preceding the applicable crop year, was ineligible for farm program payments unless at least 75 percent or more of the average AGI was farm income, defined as income from farming, ranching, or forestry operations. The AGI provision of the 2002 Farm Bill covered crop years 2003 through 2008 and applied to most farm program payments, including those for crop subsidy payments (e.g., fixed payments based on historical production, known as direct payments, and price support payments), conservation practices, and disasters.

Figure 1: Percentage of $49.4 Million Paid to Potentially Ineligible Individuals, by Program, Fiscal Years 2003 through 2006



Source: GAO analysis of USDA data.

According to FSA officials, a number of factors—such as resource constraints that hamper its ability to examine complex tax and financial information and lack of authority to access and use IRS tax filer data for such purposes—contribute to its inability to verify that each individual who received farm program payments was eligible. We also found, however, that the sample FSA draws to check recipient eligibility does not test for income eligibility; instead, FSA reviews compliance with eligibility requirements other than income, such as how much a farming operation received in farm program payments in the previous year and whether it experienced a change in ownership. FSA therefore cannot ensure that only individuals who meet the income eligibility caps are receiving farm payments.

Without better management controls, USDA cannot be assured that millions of dollars in farm program payments, including conservation payments, are proper. This need for management controls will remain critical, since the 2008 farm bill lowered the income eligibility caps. This change makes the number of individuals whose adjusted gross income exceeds the caps likely to rise, which increases the risk that USDA could make improper payments to more individuals.

To ensure greater program integrity, we recommended that the Secretary of Agriculture direct FSA to work with IRS to develop a method for determining whether all recipients of farm program payments meet income eligibility requirements, and, if the Secretary finds that USDA does not have authority to obtain information from IRS, request the authority it would need from Congress. USDA agreed with our recommendations and, in a March 19, 2009, news release, the agency announced that it would work with IRS to ensure that high-income individuals and entities who request USDA payments meet income limits set forth in the 2008 farm bill. Specifically, in order to be eligible for USDA payments all recipients will be required to sign a separate form that grants IRS authority to provide income information to USDA for verification purposes. According to USDA, once this verification system is fully operational, it should identify inappropriate payments before they are disbursed.

Conclusions

In conclusion, USDA conservation programs can play an invaluable role in encouraging farmers and ranchers to act as stewards of the nation's natural resources. However, the weaknesses we previously identified in the management of CSP and EQIP funds, as well as our concerns with controls related to farm program payments more generally, could undermine the effectiveness of USDA conservation programs. On a positive note, in response to our recommendations, USDA has taken a number of promising actions to eliminate duplicate payments between CSP and other programs, refine the EQIP allocation formula by updating its factors, weights, and data sources and, in some cases, identifying how the factors relate to long-term performance measures, and strengthen management controls over farm program payments. While these actions are positive, continued oversight of these programs, such as today's hearing, helps ensure funds are spent as economically, efficiently, and effectively as possible and benefit the agricultural sector as intended. Such oversight is especially critical in light of the nation's current deficit and growing long-term fiscal challenges.

Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions that you or other Members of the Subcommittee may have.

Contacts and Staff Acknowledgements

Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. For further information about this testimony, please contact Lisa Shames, Director, Natural Resources and Environment, (202) 512-3841 or ShamesL@gao.gov. Key contributors to this statement were James R. Jones, Jr., Assistant Director; Thomas M. Cook, Assistant Director; Kevin S. Bray; Gary T. Brown; Paige M. Gilbreath; Leslie V. Mahagan; and Carol Herrnstadt Shulman.

Highlights of GAO-06-312, a report to the Chairman, Committee on Appropriations, U.S. Senate

April 2006

CONSERVATION SECURITY PROGRAM
Despite Cost Controls, Improved USDA Management Is Needed to Ensure Proper Payments and Reduce Duplication with Other Programs

Why GAO Did This Study

The Conservation Security Program (CSP)—called for in the 2002 farm bill and administered by the U.S. Department of Agriculture's (USDA) Natural Resources Conservation Service (NRCS)—provides financial assistance to producers to reward past conservation actions and to encourage further conservation stewardship. CSP payments may be made for structural or land management practices, such as strip cropping to reduce erosion. CSP has raised concerns among some stakeholders because CSP cost estimates generally have increased since the 2002 farm bill's enactment. For example, the Congressional Budget Office's estimate increased from $2 billion in 2002 to $8.9 billion in 2004.

GAO determined (1) why CSP cost estimates generally increased; (2) what authority USDA has to control costs and what cost control measures exist; and (3) what measures exist to prevent duplication between CSP and other USDA conservation programs and what duplication, if any, has occurred.

What GAO Recommends

GAO recommends, in part, that NRCS review its state offices' wildlife habitat assessment criteria and develop a process to preclude and identify duplicate payments. NRCS generally agreed with GAO's findings and recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-06-312.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Robert A. Robinson at (202) 512-3841 or robinsonr@gao.gov.

What GAO Found

Various factors explain why estimates of CSP costs generally increased since the 2002 farm bill's enactment. Of most importance, little information was available regarding how this program would be implemented at the time of its inception in 2002. As more information became available, cost estimates rose. In addition, the time frames on which the estimates were based changed. While the initial estimates covered years in which the program was expected to be nonoperational or minimally operational, subsequent estimates did not include these years.

The farm bill provides USDA general authority to control CSP costs, including authority to establish criteria that enable it to control program participation and payments and, therefore, CSP costs. For example, NRCS restricts participation by limiting program enrollment each year to producers in specified, priority watersheds. NRCS also has established certain CSP payment limits at levels below the maximum allowed by the statute. However, efforts to control CSP spending could be improved by addressing weaknesses in internal controls and inconsistencies in the wildlife habitat assessment criteria that NRCS state offices use, in part, to determine producer eligibility for the highest CSP payment level. Inconsistencies in these criteria also may reduce CSP's conservation benefits.

The farm bill prohibits duplicate payments for the same practice on the same land made through CSP and another USDA conservation program. Various other farm bill provisions also reduce the potential for duplication. For example, as called for under the farm bill, CSP may reward producers for conservation actions they have already taken, whereas other programs generally provide assistance to encourage new actions or to idle or retire environmentally sensitive land from production. In addition, CSP regulations establish higher minimum eligibility requirements for CSP than for other programs. However, despite these legislative and regulatory provisions, the possibility that producers can receive duplicate payments remains because of similarities in the conservation actions financed through these programs. In addition, NRCS does not have a comprehensive process to preclude or identify such duplicate payments. In reviewing NRCS's payments data, GAO found a number of examples of duplicate payments.

Strip Cropping to Reduce Soil Erosion

Source: Photo courtesy of USDA NRCS.

Note: Strip cropping means growing row crops, forages, or small grains in equal width strips.

September 2006

AGRICULTURAL CONSERVATION

USDA Should Improve Its Process for Allocating Funds to States for the Environmental Quality Incentives Program

GAO
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Highlights

Highlights of GAO-06-969, a report to the Ranking Democratic Member, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate

Why GAO Did This Study

The Environmental Quality Incentives Program (EQIP) assists agricultural producers who install conservation practices, such as planting vegetation along streams and installing waste storage facilities, to address impairments to water, air, and soil caused by agriculture or to conserve water. EQIP is a voluntary program managed by the U.S. Department of Agriculture's (USDA) Natural Resources Conservation Service (NRCS). NRCS allocates about $1 billion in financial and technical assistance funds to states annually. About $650 million of the funds are allocated through a general financial assistance formula.

As requested, GAO reviewed whether USDA's process for allocating EQIP funds to states is consistent with the program's purposes and whether USDA has developed outcome-based measures to monitor program performance. To address these issues, GAO, in part, examined the factors and weights in the general financial assistance formula.

What GAO Recommends

GAO recommends, among other things, that NRCS document its rationale for the factors and weights in its general financial assistance formula and use current and accurate data. USDA agreed with GAO that the formula needed review. USDA did not agree with GAO's view that NRCS's funding process does not clearly link to EQIP's purpose of optimizing environmental benefits. It believes that the funding process clearly links to EQIP's purpose, but it has not documented the link.

www.gao.gov/cgi-bin/getrpt?GAO-06-969.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Daniel Bertoni at (202) 512-3841 or bertonid@gao.gov.

What GAO Found

NRCS's process for providing EQIP funds to states is not clearly linked to the program's purpose of optimizing environmental benefits; as such, NRCS may not be directing funds to states with the most significant environmental concerns arising from agricultural production. To allocate most EQIP funds, NRCS uses a general financial assistance formula that consists of 31 factors, including such measures as acres of cropland, miles of impaired rivers and streams, and acres of specialty cropland. However, this formula has several weaknesses. In particular, while the 31 factors in the financial assistance formula and the weights associated with each factor give the formula an appearance of precision, NRCS does not have a specific, documented rationale for (1) why it included each factor in the formula, (2) how it assigns and adjusts the weight for each factor, and (3) how each factor contributes to accomplishing the program's purpose of optimizing environmental benefits. Factors and weights are important because a small adjustment can shift the amount of funding allocated to each state on the basis of that factor and, ultimately, the amount of money each state receives. For example, in 2006, a 1 percent increase in the weight of any factor would have resulted in $6.5 million more allocated on the basis of that factor and a reduction of 1 percent in money allocated for other factors. In addition to weaknesses in documenting the design of the formula, some data NRCS uses in the formula to make financial decisions are questionable or outdated. For example, the formula does not use the most recent data available for 6 of the 31 factors, including commercial fertilizers applied to cropland. As a result, any recent changes in a state's agricultural or environmental status are not reflected in the funding for these factors. During the course of GAO's review, NRCS announced plans to reassess its EQIP financial assistance formula.

NRCS recently developed a set of long-term, outcome-based performance measures to assess changes to the environment resulting from EQIP practices. The agency is also in the process of developing computer models and other data collection methods that will allow it to assess these measures. Thus, over time, NRCS should ultimately have more complete information on which to gauge program performance and better direct EQIP funds to areas of the country that need the most improvement.

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Highlights

Highlights of GAO-09-67, a report to the Ranking Member, Committee on Finance, U.S. Senate

Why GAO Did This Study

Farmers receive about $16 billion annually in federal farm program payments. These payments go to about 2 million recipients, both individuals and entities. GAO previously has reported that the U.S. Department of Agriculture (USDA) did not consistently ensure that these payments went only to those who meet eligibility requirements.

GAO was asked to evaluate (1) how effectively USDA implemented 2002 Farm Bill provisions prohibiting payments to individuals or entities whose income exceeded $2.5 million and who derived less than 75 percent of that income from farming, ranching, or forestry operations, (2) the potential impact of the 2008 Farm Bill's income eligibility provisions on individuals who receive farm payments, and (3) the distribution of income of these individuals compared with all 2006 tax filers. GAO compared USDA data on individuals receiving payments with the latest available Internal Revenue Service (IRS) data on these individuals.

What GAO Recommends

GAO recommends that USDA work with IRS to develop a system for verifying the income eligibility for all recipients of farm program payments. If USDA determines that it needs authority to work with IRS, it should seek this authority from Congress, as appropriate. In commenting on a draft of this report, USDA agreed with these recommendations but disputed some of the findings. GAO believes that the report is fair and accurate.

To view the full product, including the scope and methodology, click on GAO-09-67. For more information, contact Lisa Shames at (202) 512-3841 or shamesl@gao.gov.

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FEDERAL FARM PROGRAMS

USDA Needs to Strengthen Controls to Prevent Payments to Individuals Who Exceed Income Eligibility Limits

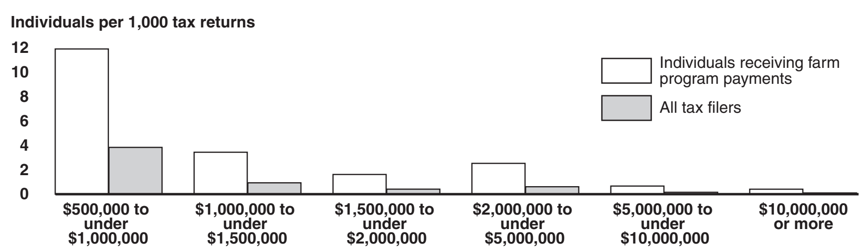
What GAO Found

USDA does not have management controls, such as reviewing an appropriate sample of recipients' tax returns, to verify that payments are made only to individuals who do not exceed income eligibility caps and therefore cannot be assured that millions of dollars in farm program payments it made are proper. GAO found that of the 1.8 million individuals receiving farm payments from 2003 through 2006, 2,702 had an average adjusted gross income (AGI) that exceeded $2.5 million and derived less than 75 percent of their income from farming, ranching, or forestry operations, thereby making them potentially ineligible for farm payments. Nevertheless, USDA paid over $49 million to these individuals. According to USDA officials, a number of factors—such as resource constraints that hamper its ability to examine complex tax and financial information as well as a lack of authority to obtain and use IRS tax filer data for such purposes—contribute to the department's inability to verify that each individual who receives farm program payments complies with income eligibility provisions. However, USDA does not routinely sample individuals receiving farm payments to test for income eligibility; instead, its annual sample selected for review is based primarily on compliance with eligibility requirements other than income. The 2008 Farm Bill directs USDA to use statistical methods to target those individuals most likely to exceed income eligibility caps.

The 2008 Farm Bill will increase the number of individuals likely to exceed the income eligibility caps. That is, with lower income eligibility caps under the 2008 Farm Bill, the number of individuals whose AGI exceeds the caps will rise, increasing the risk that USDA will make improper payments to more individuals. For example, had the new Farm Bill been in effect in 2006, as many as 23,506 individuals who received farm program payments would likely have been ineligible for crop subsidy and disaster assistance payments totaling as much as $90 million.

Compared with all tax filers, individuals who participated in farm programs in 2006 are more likely to have higher incomes. For example, as shown in the figure below, 12 of every 1,000 individuals receiving farm program payments reported AGI between $500,000 and $1 million compared with about 4 of all tax filers who reported income at this level.

Distribution of Income of Individuals Receiving Farm Program Payments and All Tax Filers, 2006



Source: GAO analysis of USDA and IRS data.

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