

April 2006

CONSERVATION SECURITY PROGRAM

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



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Highlights

Highlights of [GAO-06-312](#), a report to the Chairman, Committee on Appropriations, U.S. Senate

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.

CONSERVATION SECURITY PROGRAM

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

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.

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Abbreviations

CBO	Congressional Budget Office
CCC	Commodity Credit Corporation
CRS	Congressional Research Service
CSP	Conservation Security Program
EQIP	Environmental Quality Incentives Program
IG	Inspector General
NRCS	Natural Resources Conservation Service
O&E	Oversight and Evaluation
OMB	Office of Management and Budget
USDA	U.S. Department of Agriculture
WHIP	Wildlife Habitat Incentives Program

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United States Government Accountability Office
Washington, D.C. 20548

April 28, 2006

The Honorable Thad Cochran
Chairman
Committee on Appropriations
United States Senate

Dear Mr. Chairman:

Farmers and ranchers own and manage about 940 million acres, or about half of the continental United States' land area, and are thus among the most important stewards of our soil, water, and wildlife habitat. Because of this important responsibility, how private land is used is increasingly recognized as vital to protecting the nation's environment and natural resources. For example, to help protect water quality and conserve wildlife habitat, private landowners have installed millions of acres of conservation buffers.¹ Despite these efforts, state water-quality agencies report that agricultural production is still a leading contributor to impaired water quality; similarly, habitat loss associated with agriculture has been a factor in the declining populations of numerous wildlife species, including many threatened or endangered native species. Recognizing the critical role played by private landowners, Congress significantly increased authorized funding for an array of conservation programs managed by the U.S. Department of Agriculture (USDA) in the Farm Security and Rural Investment Act of 2002 (farm bill).² Specifically, Congress authorized additional funding for these programs for fiscal years 2002 through 2007, estimated by the Congressional Budget Office (CBO) to be \$20.8 billion, nearly an 80 percent increase over the previous baseline for these programs.³ Part of this increase was for several new conservation programs

¹Conservation buffers are strips or areas of land in permanent vegetation—such as grasses, shrubs, or trees—designed and strategically placed to intercept pollutants—such as nutrients and pesticides—that wash off cropland or to serve other environmental purposes, such as to provide wildlife habitat or windbreaks.

²Pub. L. No. 107-171, 116 Stat. 134 (2002).

³In April 2001, CBO estimated the baseline for USDA conservation programs to be \$11.6 billion for fiscal years 2002 through 2007, assuming neither changes nor additions to these programs. However, with the passage of the new farm bill in May 2002, Congress made a number of changes and additions to these programs. As a result, CBO increased its estimate by nearly 80 percent to \$20.8 billion for fiscal years 2002 through 2007.

called for by the farm bill, including the Conservation Security Program (CSP).

CSP supports ongoing conservation stewardship of agricultural lands by providing financial and technical assistance to promote conservation and the improvement of soil, water, air, energy, and plant and animal life on private and tribal agricultural lands. Unlike other USDA conservation programs that provide assistance to take new actions aimed at addressing identified problems such as excessive soil erosion or nutrient runoff, CSP is unique in that it rewards farmers and ranchers who already meet very high standards of conservation and environmental management in their operations. The program seeks to encourage these producers to continue and further enhance their high level of stewardship while creating an incentive for other producers to increase their level of stewardship in order to qualify for CSP assistance as well. CSP is also unique among USDA conservation programs in that Congress authorized it without placing limits on either its funding or the number of acres enrolled, although at times Congress has capped its funding in other legislation.⁴ CSP is open to all eligible agricultural producers, regardless of size of operation, crops produced, or geographic location. CSP is administered by USDA's Natural Resources Conservation Service (NRCS) and funded through USDA's Commodity Credit Corporation (CCC).⁵

⁴Since calling for the establishment of CSP, Congress has capped program funding in some manner in other legislation. For example, in the annual appropriations act for fiscal year 2004, Congress limited the amount of funding available for CSP to \$41.443 million, Pub. L. No. 108-199, div. A, tit. VII, § 752, 118 Stat. 3, 38 (2004). For fiscal years 2005 and 2006, Congress limited the amount of funding available to pay salaries and expenses of personnel in carrying out CSP to \$202.411 million and \$259 million, respectively. Pub. L. No. 108-447, § 749, 118 Stat. 2809 (2004) and Pub. L. No. 109-97, § 741, 119 Stat. 2120 (2005). In addition, legislation enacted in February 2006 capped CSP's funding at \$1.954 billion for fiscal years 2006 through 2010 and \$5.650 billion for fiscal years 2006 through 2015. Pub. L. No. 109-171, 120 Stat. 4 (2006). See appendix VI for more information.

⁵CCC is a government-owned and government-operated corporation under USDA that was created in 1933 to stabilize, support, and protect farm income and prices. CCC also helps to maintain balanced and adequate supplies of agricultural commodities and aids in their orderly distribution. Essentially, CCC is a financing institution for USDA's farm price and income support commodity programs, agricultural export subsidies, and some agricultural conservation programs, including CSP. CCC has the authority to borrow up to \$30 billion from the U.S. Treasury, private lending institutions, and others to carry out its obligations. Net losses from CCC's operations are subsequently restored through the congressional appropriations process.

CSP rewards three levels, or tiers, of conservation treatment for qualified producers who enter into CSP contracts with NRCS.⁶ Tier I participants must have addressed soil and water quality resource concerns to a specified minimum level of treatment on at least part of the participant's operation prior to applying to the program.⁷ Under this tier, contracts are of 5-year duration, and annual payments of up to \$20,000 are to be made. Tier II participants must have addressed soil and water quality resource concerns to the minimum level of treatment on the entire agricultural operation prior to application and must treat an additional significant resource concern as well. Under this tier, contracts are of a 5- to 10-year duration, and annual payments of up to \$35,000 are to be made. In addition to addressing soil and water quality resource concerns to specified minimum levels, Tier III participants must have addressed all other applicable resource concerns, including wildlife habitat, to a minimum level on their entire agricultural operation before application. These additional resource concerns are described in the CSP sign-up notice,⁸ and the related criteria for the minimum treatment levels are provided in CSP regulations and may be further augmented by NRCS state offices to reflect local conditions. For example, for the fiscal year 2004 and fiscal year 2005 CSP sign-ups, wildlife habitat management was identified as an applicable resource concern in the sign-up notices. Under Tier III, contracts are of a 5- to 10-year duration, and annual payments of up to \$45,000 are to be made.

⁶A CSP contract (conservation stewardship contract) means a legal document that specifies the rights and obligations of any participant who has been accepted to receive assistance through participation in CSP.

⁷*Resource concern* refers to the condition of natural resources that may be sensitive to change by natural forces or human activity. Resource concerns include soil erosion, soil condition, soil deposition, water quality, water quantity, air condition, plant management, and animal habitat and management.

⁸*Sign-up notice* means the public notification document that NRCS provides to describe the particular requirements for a specific CSP sign-up. This notice is published in the *Federal Register*.

Regardless of the tier, a producer's total CSP contract payment may include up to four components: (1) an annual stewardship component for the base level of conservation treatment required for program eligibility,⁹ (2) an annual existing practice component for the maintenance of existing conservation practices,¹⁰ (3) an annual enhancement component for additional activities that provide increased resource benefits beyond the base level of conservation treatment that is required for program eligibility,¹¹ and (4) a one-time new practice component for additional approved practices.¹² In determining which CSP contract applications to accept, NRCS first determines whether an application meets the minimum requirements for Tier I, II, or III. NRCS then groups qualified applications into one of five enrollment categories—defined by criteria such as a producer's willingness to undertake additional conservation activities—and funds the applications beginning with the highest category in each tier until the available funding is exhausted. The farm bill requires NRCS to provide technical assistance to producers for the development and implementation of conservation security contracts but in an amount not to exceed 15 percent of amounts expended for the fiscal year.¹³

⁹*Conservation treatment* refers to any and all conservation practices, measures, and works of improvement that have the purpose of alleviating resource concerns, solving or reducing the severity of natural resource use problems, or taking advantage of resource opportunities.

¹⁰*Conservation practice* refers to a specified treatment, such as a structural or land management practice, that is planned and applied to NRCS standards and specifications.

¹¹Enhancement payments may be made for implementing or maintaining multiple conservation practices that exceed minimum requirements for the applicable tier; addressing local conservation priorities in addition to resources of concern for the agricultural operation; participating in an on-farm conservation research, demonstration, or pilot project; participating in a watershed or regional resource conservation plan that involves at least 75 percent of producers in a targeted area; or carrying out assessment or evaluation activities relating to practices included in a conservation security plan.

¹²At a minimum, all CSP contract payments include some amount for the stewardship and existing practice components. The enhancement payment and new practice component amounts may be zero in some cases.

¹³According to NRCS, technical assistance refers to conservation planning, design, and implementation assistance that NRCS provides to producers, including assisting producers to enroll in NRCS programs.

NRCS held the first CSP sign-up in fiscal year 2004. Nearly 2,200 farmers and ranchers participated in the program that year, with contracts covering nearly 1.9 million acres in 18 watersheds in 22 states. Producer payments totaled about \$34.6 million in fiscal year 2004. For fiscal year 2005, NRCS approved over 12,700 CSP contract applications, covering over 9 million acres in 220 watersheds in 50 states and Puerto Rico. Producer payments totaled about \$171.4 million (including payments for contracts approved in 2004) in fiscal year 2005. In January 2006, USDA announced that it plans to offer CSP contracts to producers in an additional 60 watersheds during fiscal year 2006, with participants receiving an estimated \$220 million (including payments for contracts approved in 2004 and 2005). Over time, NRCS plans to accept CSP contract applications from eligible producers in each of the nation's 2,119 watersheds.¹⁴

CSP has attracted considerable interest by stakeholders in Congress and in farm, conservation, and environmental organizations for a variety of reasons. Notably, cost estimates for CSP generally have increased since the program's inception, and some stakeholders are concerned that CSP may duplicate assistance provided under other USDA conservation programs. Regarding program costs, estimates made by CBO and the Office of Management and Budget (OMB) generally have increased over time. For example, in May 2002, CBO estimated CSP would cost about \$2 billion over 10 years. CBO revised its 10-year cost estimate to \$7.8 billion in January 2003 and then increased it again to \$8.9 billion in March 2004. OMB's estimates also increased. In May 2002, OMB estimated CSP would cost \$5.9 billion over 10 years. OMB increased its estimate to \$9.7 billion in January 2004. Regarding potential program duplication, some stakeholders note that CSP and other USDA conservation programs appear to provide financial and technical assistance for similar conservation activities, such as creating conservation buffers around cropped fields, creating the possibility that a producer could receive duplicate payments for the same activity.

In this context, you asked us to determine (1) why CBO and OMB cost estimates for CSP generally increased over time; (2) what authority USDA has to control CSP costs and what cost control measures are in place; and

¹⁴NRCS has limited CSP enrollment each year to producers in selected watersheds to stay within funding and staff resource constraints. NRCS anticipates it will take 8 years—fiscal years 2004 through 2011—to implement the program in all 2,119 watersheds, subject to available funding.

(3) what legislative and regulatory measures exist to prevent duplication between CSP and other USDA conservation programs and what duplication, if any, has occurred.

To determine why CSP costs estimates have increased, we interviewed CBO and OMB officials and reviewed documentation they provided. We did not attempt to re-estimate or audit the CBO or OMB estimates or data discussed in this report. To determine USDA's authority to control CSP costs and the cost control measures implemented, we reviewed relevant legislation, CSP regulations, and NRCS's *Conservation Programs Manual* and related guidance. We also interviewed NRCS and other USDA officials and reviewed documentation they provided. To determine what legislative and regulatory measures exist to prevent duplication between CSP and other conservation programs and what duplication, if any, has occurred, we reviewed relevant authorizing legislation and CSP regulations. We also interviewed NRCS and other USDA officials and reviewed the documents they provided. In addition, we interviewed NRCS officials specifically responsible for developing a plan to coordinate USDA's conservation programs to, among other things, eliminate redundancy. Furthermore, to identify apparent cases of duplication, we reviewed and analyzed 2004 payments data for CSP and two other USDA conservation programs that also provide assistance to implement conservation practices on land used for agricultural production. We then discussed these cases with NRCS officials to determine the extent of duplication, if any. Finally, we interviewed officials and reviewed documentation they provided at farm, conservation, and environmental organizations. We conducted our review from February 2005 through February 2006 in accordance with generally accepted government auditing standards. Appendix I provides additional information on our objectives, scope, and methodology.

Results in Brief

Various factors explain why CBO and OMB estimates of CSP costs generally have increased over time. Most importantly, agency officials indicated that little information was available regarding how the program would be implemented at the time of the original cost estimates in May 2002. Consequently, these officials relied on their professional judgment and past experience with estimating costs when making assumptions about key aspects of CSP, such as the level of participation, number of acres enrolled, and the amount and types of payments made. Later, when more information became available as to how USDA planned to implement the program, officials' estimates were better informed and more accurately captured program costs, resulting in higher estimates. In addition,

increases in estimated CSP costs also can be attributed to revising the time frames on which the estimates were based. The agencies' initial estimates were based on the 10-year period fiscal years 2002 through 2011 and included years in which the program was not operational (2002 and 2003) or minimally operational (2004). The agencies' subsequent estimates were based on different 10-year intervals. For example, CBO's and OMB's fiscal year 2004 estimates were based on the 10-year period fiscal years 2005 through 2014 and assumed the program would be fully operational in each of these years.

The farm bill provides USDA general authority to control CSP costs, and while USDA has used its statutory authority to establish several cost control measures, its efforts to control program spending may be enhanced by addressing (1) weaknesses in internal controls used to ensure the accuracy of program payments and (2) inconsistencies in the wildlife resource criteria used by NRCS state offices to determine producer eligibility for Tier III, the highest CSP payment level. More specifically,

- the farm bill establishes some eligibility requirements for CSP, but gives USDA the authority to establish additional requirements. For example, the farm bill states that a payment under CSP “may” be received under three tiers of conservation contracts and that the Secretary of Agriculture “shall” determine and approve the minimum requirements for each tier. Furthermore, under the legislation, payments for each tier are not to exceed specified amounts, giving the Secretary of Agriculture the discretion to set payments for each tier below these limits. Under this statutory authority, NRCS implemented a number of CSP cost control measures to restrain program spending primarily by either restricting participation or limiting payments to individual producers. For example, NRCS restricts CSP participation by limiting program enrollment each year to producers in specified, priority watersheds. In addition, NRCS limits annual stewardship payments to 25, 50, and 75 percent of the maximum amount that the farm bill allows for Tiers I, II, and III, respectively.
- NRCS's cost control efforts may be undermined by weaknesses in the internal controls the agency uses to ensure accurate program payments. According to a January 2006 draft report, NRCS internal auditors found problems with several aspects of the agency's implementation of CSP, including its implementation of some internal controls. Among other things, the auditors found weaknesses in quality assurance and case file documentation. For example, they found that 33 of 55 fiscal year 2004

CSP contracts studied had not had an annual contract review, as required by NRCS's programs manual, to document that CSP participants are following contract provisions. The absence of an annual contract review, according to the internal auditors, could result in payments being made for conservation activities that are not being done or are not yet completed as scheduled in the producer's conservation security plan. NRCS plans to prepare a management action plan describing its response to this draft report's recommendations. In addition, other aspects of NRCS's internal controls have been criticized. For example, in January 2005, the USDA Inspector General reported that NRCS had neither identified the internal control measures in place to preclude, or detect in a timely manner, improper payments for the programs it administers, including CSP, nor did it know if the controls were in operation.

- NRCS's cost control efforts also may be undermined by inconsistencies in the wildlife habitat assessment criteria used by NRCS state offices, in part, to determine producer eligibility for Tier III payments. For the fiscal year 2004 CSP sign-up, according to NRCS, state offices developed wildlife habitat assessment criteria that were extremely variable, contributing significantly to differences in Tier III participation and payments among the various watersheds. For example, among the nine watersheds where cropland was the predominant type of land enrolled, the percentage of payments going to Tier III contracts ranged from 0 to 75 percent. In response, NRCS developed national guidance that its state offices were to follow in creating wildlife habitat assessment criteria. However, we found—and NRCS officials agreed—that some state offices developed and applied criteria for the fiscal year 2005 sign-up that were inconsistent with the national guidance. For example, the criteria used in watersheds under these states' jurisdiction did not require that a minimum percentage (as determined by the relevant state office) of a producer's operation be noncrop vegetative cover, such as grassy or riparian areas managed for wildlife, as specified in the national guidance. Thus, producers in these watersheds were eligible for Tier III payments even though they may not have satisfied criteria for one of the resource components that the national guidance specifies is necessary for eligibility. Moreover, an NRCS official explained that although NRCS has not undertaken a review to determine whether producers have qualified for Tier III payments under this scenario, based on informal discussions with field office staff, this official concluded that some producers received such payments during the fiscal years 2004 and 2005 sign-ups. Finally, the use of criteria that are inconsistent with the

national guidance not only weakens CSP cost control measures by making more Tier III payments possible, it also reduces NRCS's ability to ensure that CSP is achieving its intended wildlife habitat benefits. Despite the possible undesirable outcomes associated with inconsistencies in state offices' wildlife habitat assessment criteria, as of February 2006, NRCS had not reviewed or field tested each state office's criteria and did not have plans to do so. In addition, NRCS has not incorporated a reference to the national guidance in its *Conservation Programs Manual* used by the agency's field staff.

Various legislative and regulatory measures exist to reduce the potential for duplication between CSP and other USDA conservation programs; however, the possibility that producers can receive duplicate payments for the same conservation action from CSP and other programs remains. Specifically, the farm bill explicitly prohibits duplicate payments under CSP and other conservation programs for the same practice on the same land. The farm bill also prohibits NRCS from making payments under CSP for certain activities that can be funded under other conservation programs, such as the construction or maintenance of animal waste storage or treatment facilities. Furthermore, NRCS designed its CSP regulations to prevent duplication between CSP and other conservation programs. For example, the regulations establish higher minimum eligibility standards for CSP than exist for other programs, helping to differentiate the applicant pool for CSP from the potential applicants for these other programs. The regulations also encourage CSP participants to implement conservation actions, known as enhancements, intended to achieve a level of treatment that generally exceeds the level required by other USDA conservation programs. However, despite statutory provisions and NRCS actions designed to prevent CSP from duplicating other programs, the potential for duplicate payments still exists and duplicate payments have occurred. In particular, payments for CSP's conservation enhancements—which represented about 81 percent of total CSP payments in fiscal years 2004 and 2005—could duplicate payments for other programs' conservation practices. For example, in the course of performing limited file reviews at several NRCS field offices, we found a case where a producer received payments under CSP and another program in 2004 for the same conservation activity—establishing a small grain cover crop—on the same tract of land. Furthermore, our analysis of 2004 payments data for CSP and two other USDA conservation programs revealed other potential examples of duplicate payments. Specifically, we found 121 cases of payments that were made under CSP and another program that year that were potentially duplicates. We then selected 12 of these cases for further investigation, and

we found that in 8 cases duplicate payments had occurred. NRCS officials acknowledged that duplicate payments had occurred in 4 of these cases but did not agree in the other 4 cases. Finally, NRCS officials stated the agency lacks a comprehensive process to either preclude duplicate payments or identify them after a contract has been awarded. Instead, these officials said that NRCS relies on the institutional knowledge of its field staff and the records they keep as a guard against potential duplication.

In light of these findings, we are recommending that USDA direct NRCS to (1) review its state offices' wildlife habitat assessment criteria to ensure consistency with the agency's national guidance for developing these criteria; (2) include a reference to the national guidance in its *Conservation Programs Manual* to emphasize the importance of this guidance; (3) establish a comprehensive process to identify potential duplicate payments in the future, as well as such payments that already may have been made under existing CSP contracts; and (4) take action to recover duplicate payments already made.

In commenting on a draft of this report, NRCS generally agreed with the findings and recommendations and provided information on actions it has taken, is taking, or will take to implement them. NRCS's comments are reprinted in appendix VIII. NRCS also provided us with suggested technical corrections, which we incorporated into this report as appropriate.

We also provided a draft of this report to CBO and OMB for review and comment. Their clarifying comments were incorporated into this report as appropriate.

Background

CSP, called for under section 2001 of the 2002 farm bill,¹⁵ is a voluntary conservation program that supports ongoing stewardship of private and tribal agricultural lands by providing payments to producers for maintaining and enhancing natural resources. According to USDA, CSP identifies and rewards those farmers and ranchers who are meeting the highest standards of conservation and environmental management on their operations, while creating powerful incentives for other producers to meet those same standards of conservation performance. In turn, the

¹⁵The Farm Security and Rural Investment Act of 2002 amended the Food Security Act of 1985 and required the Secretary of Agriculture to establish CSP.

conservation benefits gained will help these farms and ranches to be more economically and environmentally sustainable while increasing natural resources benefits to society at large.

CSP provides financial and technical assistance to agricultural producers who advance the conservation and improvement of soil, water, air, energy, plant and animal life, and other conservation purposes on working lands. Such lands include cropland, grassland, prairie land, improved pasture, and rangeland, as well as forested land and other noncropped areas that are an incidental part of the agriculture operation. The program is available in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the Virgin Islands of the United States, American Samoa, the Commonwealth of the Northern Mariana Islands, and the Trust Territory of the Pacific Islands. Under the farm bill, the program is open to all agricultural producers, regardless of size of operation, crops produced, or geographic location. CSP is administered by NRCS.

In implementing CSP, NRCS emphasizes soil and water quality as nationally important resource concerns because of the potential for significant environmental benefits from conservation treatment that improves their condition. Thus, although the farm bill required producers to treat at least one resource of concern under CSP, NRCS program regulations require producers to treat at least two resources—soil and water—to be eligible for the program.¹⁶ Producers can use CSP payments to fund a variety of soil and water quality conservation practices. Soil quality practices include crop rotation, planting cover crops, tillage practices, prescribed grazing, and providing adequate wind barriers. Water quality practices include conservation tillage, strip cropping, vegetative filter strips, terraces, grassed waterways, managed access to water courses, nutrient and pesticide management, prescribed grazing, and irrigation water management. In addition, under the farm bill and NRCS regulations, to be eligible for CSP, both the producer and the producer's operation must first meet several basic eligibility criteria, including (1) the land must be private agricultural land, forested land that is an incidental part of an agricultural operation, or tribal land with the majority of the land located within a selected priority watershed; (2) the applicant must be in compliance with highly erodible land and wetlands provisions of the Food Security Act of 1985 and generally must have control of the land for the life of the contract; and (3) the applicant must share in the risk of producing any crop or

¹⁶The CSP regulations are found at 7 C.F.R. Part 1469.

livestock and be entitled to a share in the crop or livestock available for marketing from the operation.

The farm bill establishes three tiers or levels of participation. Each tier has a specified contract period and an annual payment limit and calls for a plan addressing resources of concern (as further delineated in NRCS regulations), as indicated in table 1.

Table 1: CSP Payment Tiers

Tier	Contract period (years)	Annual payment limit	Conservation criteria (The producer must have addressed...)
I	5	\$20,000	water and soil quality to meet specified minimum levels of treatment on part of the agricultural operation prior to enrollment.
II	5 to 10	35,000	water and soil quality to meet specified minimum levels of treatment on the entire agricultural operation prior to enrollment and agree to address at least one additional locally significant resource concern by the end of the contract. ^a
III	5 to 10	\$45,000	all existing resource concerns to meet specified minimum levels of treatment on the entire agricultural operation.

Source: 2002 farm bill and NRCS's CSP regulations.

^aProducers can satisfy the requirement to address an additional resource of concern by demonstrating that the locally significant resource concern is not applicable to their operation or that they have already addressed it in accordance with NRCS's quality criteria.

In addition to these tiers, NRCS's program regulations and sign-up announcements establish enrollment categories and subcategories. Under NRCS regulations, enrollment categories may be defined by criteria related to resource concerns and levels of historic conservation treatment, including a producer's willingness to achieve additional environmental performance or conduct conservation enhancement activities. For the fiscal year 2005 sign-up, five enrollment categories (A through E) were used for cropland, pasture, and rangeland. For example, for cropland, the enrollment categories were defined by various levels of soil conditioning index scores and the number of stewardship practices and activities in

place on the farm for at least 2 years.¹⁷ All applications that met the sign-up criteria were placed in an enrollment category, regardless of available funding. NRCS then funded all eligible producers enrolled in category A before funding producers in category B and subsequent categories until available funding was exhausted.¹⁸ If an enrollment category could not be fully funded, then the subcategories were used to determine application funding order within a category. For the fiscal year 2005 sign-up, 12 subcategories were used. These subcategories included factors such as whether (1) the applicant is a limited resource producer or a participant in an ongoing environmental monitoring program; (2) the agricultural operation is in a designated water conservation area or aquifer zone, drought area, or nonattainment area for air quality; or (3) the agricultural operation is in a designated area for threatened and endangered species habitat creation and protection.

The producer's CSP contract identifies the type and amount of program payments that a producer will receive. NRCS has established criteria for calculating each of the four components of the program payment. For example, the stewardship component is based on the number of acres enrolled in CSP, the stewardship payment rate established for the watershed, and reduction factors based on the tier of enrollment. At a minimum, all CSP contract payments include amounts for the stewardship and existing practice components. To be eligible to participate in CSP, the producer must develop a conservation security plan (also known as a conservation stewardship plan) that identifies the land and resources to be conserved; describes the tier of conservation security contract and the particular conservation practices to be implemented, maintained, or improved; and contains a schedule for the implementation, maintenance, or improvement of these practices. This plan must be submitted to and approved by NRCS.

¹⁷The soil conditioning index is used to predict the consequences of cropping systems and tillage practices on the trend of soil organic matter. This index has three main components: (1) the amount of organic matter returned to the soil, (2) the effects of tillage and field operations on organic matter decomposition, and (3) the effect of predicted soil erosion associated with the management system. The index gives an overall rating based on these components. Negative ratings indicate declining soil organic matter, while positive ratings indicate increasing soil organic matter.

¹⁸According to NRCS, it uses enrollment categories to determine funding hierarchy due to budget limits and statutory constraints on technical assistance. The farm bill prohibits competitive bidding or similar practices, but NRCS states that it does not have applicants compete with one another for contracts.

According to NRCS, about 1.8 million farmers and ranchers nationwide are potentially eligible for CSP. However, the agency has chosen a staged approach to implementing CSP, based on limiting program sign-ups to selected, priority watersheds each year.¹⁹ In part, this reflects CSP's newness. As with any new program, there have been birthing and growing pains as the agency has grappled with developing program regulations, training its staff, outreaching to producers and stakeholder groups, and adjusting program implementation based on lessons learned from one program sign-up year to the next. NRCS also chose a staged approach in light of limited program funding—Congress authorized caps for total CSP funding in fiscal year 2004 and for salaries and expenses of personnel to carry out CSP in fiscal years 2005 and 2006²⁰—and the statutory limitation on the amount of CSP funding that can be used for technical assistance—NRCS cannot incur technical assistance costs in excess of 15 percent of the funds expended in a given fiscal year for CSP. According to NRCS, focusing on priority watersheds reduces the administrative burden on applicants and the costs of processing a large number of applications that cannot be funded. In addition, the agency notes that everyone in the United States lives in a watershed and, because each year producers in approximately one-eighth of the nation's 2,119 watersheds will be eligible for the sign-up, all eligible producers will have the opportunity to participate over an 8-year period, subject to available funding.

¹⁹Under NRCS regulations, NRCS is to prioritize watersheds considering several factors including (1) potential of surface water and groundwater quality to degradation, (2) potential of soil to degradation, (3) potential of grazing land to degradation, (4) state or national conservation and environmental issues (such as location of air nonattainment zones or important wildlife or fisheries habitat), and (5) local availability of management tools needed to more efficiently operate the program (such as digitized soils information).

²⁰USDA officials explained that they consider the caps appearing in the annual appropriations acts for fiscal years 2005 and 2006 to be limitations on the total funding available for CSP, not just for the salaries and expenses of personnel to carry out the program. In providing technical comments on a draft of this report, these officials explained that they understood that the wording, "to pay the salaries and expenses of personnel," was used for scorekeeping purposes to count savings against discretionary spending limits. According to these officials, this language has been used across the board, i.e., for all farm bill programs in several of the past appropriations acts. They stated that the effect is to prevent any administrative actions to implement a program that spends more than the amount set out in the provision. Accordingly, these officials said that it was understood that the caps were, in fact, limits on total program spending, including financial assistance to producers as well as technical assistance (i.e., salaries and expenses of NRCS employees to implement CSP).

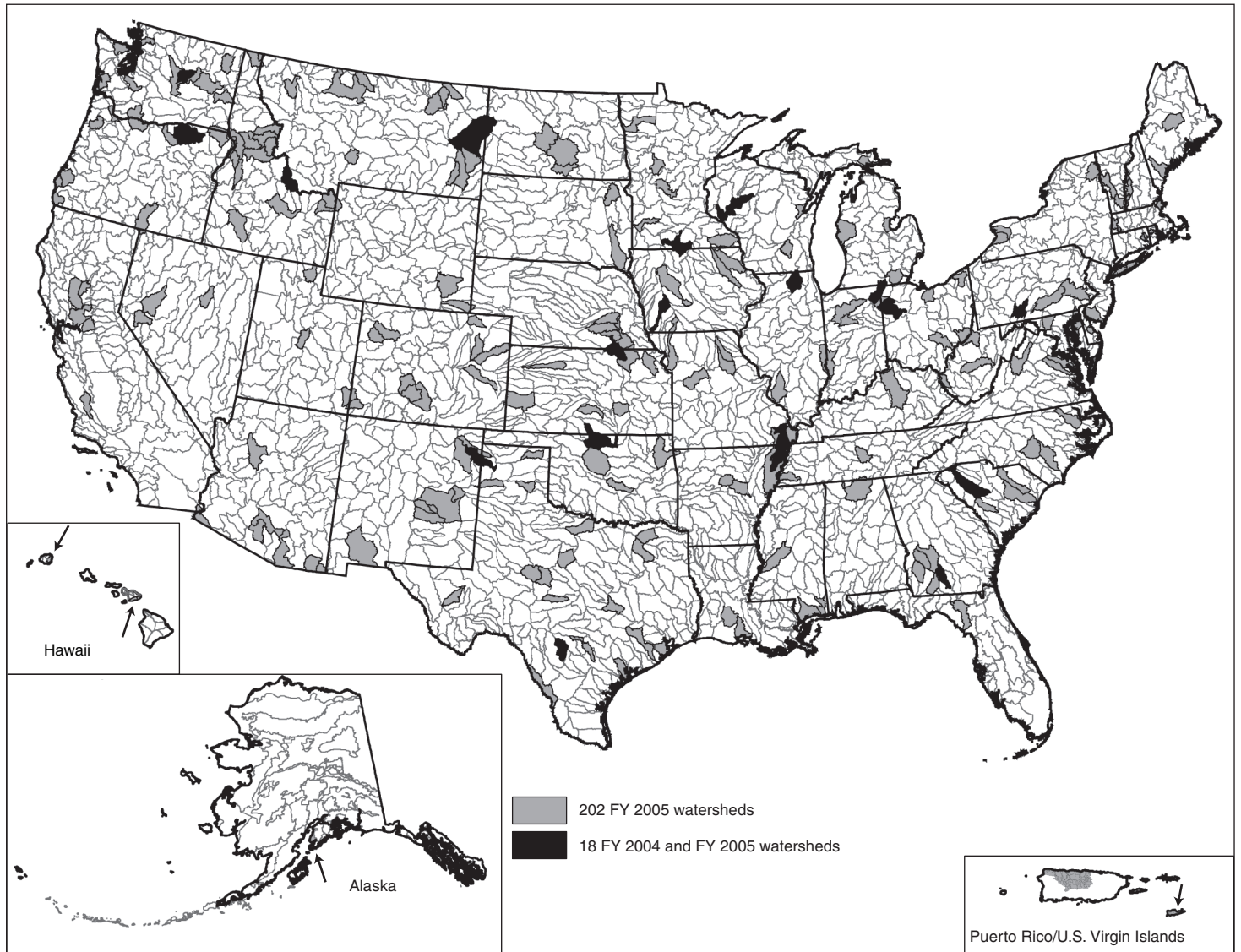
NRCS held the first CSP sign-up in fiscal year 2004. Nearly 2,200 farmers and ranchers participated in the program that year with contracts covering nearly 1.9 million acres in 18 watersheds in 22 states. Producer payments totaled about \$34.6 million in fiscal year 2004, and NRCS used about \$5.9 million for technical assistance.²¹ For fiscal year 2005, NRCS approved over 12,700 CSP contract applications, covering nearly 9 million acres in 220 watersheds in 50 states and Puerto Rico. These 220 watersheds included the 18 watersheds covered by the fiscal year 2004 sign-up. Producer payments totaled about \$171.4 million (including payments for contracts approved in 2004) in fiscal year 2005, and NRCS used about \$30.2 million for technical assistance.²² In January 2006, USDA announced that it plans to offer CSP contracts to producers in an additional 60 watersheds during fiscal year 2006, with participants receiving an estimated \$220 million (including payments for contracts approved in 2004 and 2005).²³ More detail on the CSP payments made in fiscal years 2004 and 2005 is summarized in appendix II, including information on these payments by tier, payment type, and enhancement type. Figure 1 shows the watersheds included in the fiscal year 2004 and fiscal year 2005 CSP sign-ups.

²¹Congress capped CSP funding at \$41.443 million for fiscal year 2004. Agency officials said that they reserved \$996,322 of fiscal year 2004 funding for unexpected contract costs associated with producer contracts. Applying principles established in the Account Closing Statute (31 U.S.C. § 1553) and under OMB guidance (OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, Part 1, § 20.4(c), Nov. 2, 2005), agency officials indicated that the budget authority for this reserve expired at the end of fiscal year 2004, but the amount remains available for an additional 5 fiscal years to pay for certain adjustments to contract costs and legitimate contract modifications.

²²For fiscal year 2005, Congress limited the amount of funds available to pay salaries and personnel expenses to carry out CSP to \$202.411 million. NRCS interpreted this limit on salaries and personnel expenses to be a limit on total program funding. According to NRCS officials, the agency reserved about \$842,770 of this funding for legitimate contract adjustments and modifications as described in note 21.

²³For fiscal year 2006, Congress limited the amount of funds available to pay salaries and personnel expenses to carry out CSP to \$259 million. Again, NRCS interpreted this limit on salaries and personnel expenses to be a limit on total program funding. Based on this level of funding, on August 25, 2005, USDA announced preliminary selection of 110 watersheds for the fiscal year 2006 CSP sign-up. However, on Jan. 31, 2006, USDA announced that this sign-up would be limited to 60 watersheds only because of anticipated reductions to the CSP funding cap for future years to generate savings for deficit reduction. Specifically, the Deficit Reduction Act of 2005, Pub. L. No. 109-171, § 1202, 120 Stat. 4 (2006), repeals the \$6.037 billion cap on CSP funding through 2014 but creates new caps that limit CSP spending to \$1.954 billion for the period fiscal years 2006 through 2010 and \$5.650 billion for the period fiscal years 2006 through 2015. CBO estimates that these new caps will generate savings of \$649 million over the period fiscal years 2006 through 2010 and savings of \$1.1 billion over the period fiscal years 2006 through 2015.

Figure 1: Watersheds Included in the Fiscal Year 2004 and Fiscal Year 2005 CSP Sign-ups



Source: NRCS.

Note: NRCS allowed the 18 watersheds included in the fiscal year 2004 sign-up to be reopened only for new applicants for the fiscal year 2005 sign-up. This was because NRCS received many complaints from producers in these watersheds that they did not have sufficient time or did not know enough about CSP to apply for assistance under the program in the fiscal year 2004 sign-up. The arrows denote some of the smaller watersheds included in the fiscal year 2005 sign-up.

In general, NRCS implements CSP by (1) offering periodic sign-ups in specific, priority watersheds across the Nation; (2) requiring producers to complete a self-assessment, including a description of conservation activities on their operations, to determine their eligibility for the program;²⁴ (3) scheduling interviews with eligible producers in local NRCS field offices to review the producers' applications; (4) determining which program tier and enrollment category an eligible producer may participate in; (5) selecting the enrollment categories to be funded for CSP contracts; (6) developing conservation security plans and contracts for the producers selected; and (7) making the associated payments. Appendix III provides a flowchart describing the CSP application and enrollment process in more detail. Applicants may submit only one application for each sign-up. Producers who are participants in an existing CSP conservation stewardship contract are not eligible to submit another application.

Many stakeholders refer to CSP as an "entitlement" program.²⁵ However, the farm bill does not refer to the creation of any entitlements under the program. Moreover, the legislation provides the Secretary of Agriculture with discretion to establish additional eligibility requirements, provides that the Secretary must approve a producer's conservation security plan before entering into a conservation security contract, and only states that payments "may" be received under three tiers of contracts. Thus, CSP is not an entitlement program.

²⁴Among other things, the self-assessment details the type of agricultural operation, land uses, existing conservation practices, resource concerns, and the producer's willingness to do additional conservation in the future.

²⁵Entitlement authority is authority to make payments for which budget authority is not provided in advance by appropriation acts to any person or government if, under the provisions of the law containing such authority, the U.S. government is legally required to make the payments to persons or governments that meet the requirements established by law. 2 U.S.C. § 622(9).

Finally, many proponents of CSP maintain that this program will help U.S. producers stay competitive in the world market while providing significant societal environmental benefits. These proponents note that traditional farm commodity programs tend to distort trade and will thus face increasing pressure for reduction or elimination in the next round of World Trade Organization talks.²⁶ However, they note, “green payments” programs such as CSP that are designed to promote conservation and stewardship of natural resources on working lands are more likely to survive in these talks.²⁷ They also maintain that several European countries are far ahead of the United States in using green payments programs to provide financial assistance to their producers while promoting conservation and environmental stewardship. CSP is generally regarded as the most comprehensive green payments program developed in the United States, primarily because CSP promotes integrated, whole-farm planning for conservation.

Information on other USDA conservation programs is presented in appendix IV.

²⁶In the 1994 Uruguay Round Agreement on Agriculture of the General Agreement on Tariffs and Trade, World Trade Organization members, including the United States, made commitments to improve market access, reduce export subsidies, and limit and, in some cases, reduce trade-distorting domestic agricultural supports. The United States and other World Trade Organization members are currently engaged in another round of multilateral trade negotiations that began in Doha, Qatar, in 2001, where they reaffirmed their commitment to agricultural trade liberalization, and in July 2004, the members agreed on a framework to guide negotiations on agriculture. The U.S. negotiating position has emphasized harmonizing, reducing, and further disciplining agricultural subsidies. In the interim, existing Uruguay Round commitments will continue at established levels. World Trade Organization members found to be in violation of these commitments can be subject to retaliatory measures, such as punitive tariffs on exports.

²⁷Green payments are made to producers as compensation for environmental benefits that accrue as a result of or in conjunction with their farming activities. In general, these payments are deemed to be minimally trade distorting and are excluded from reduction commitments in the Uruguay Round Agreement on Agriculture.

Estimates of CSP Costs Generally Increased because of Better Information on Program Implementation and Changes to the Time Frames Covered by the Estimates

Various factors explain why CBO and OMB estimates of CSP costs generally have increased over time. Of most importance, CBO and OMB officials indicated that little information was available regarding how the program would be implemented at the time of its inception in May 2002. Subsequent estimates have been better informed because USDA had developed and implemented program regulations and had data on the number of participants from program sign-ups. In addition, increases in estimated CSP costs also can be attributed to revising the time frames on which the estimates were based. In general, this involved replacing estimates from earlier years during which the program was not operational, or minimally operational, with later years during which the program is expected to be more fully operational.

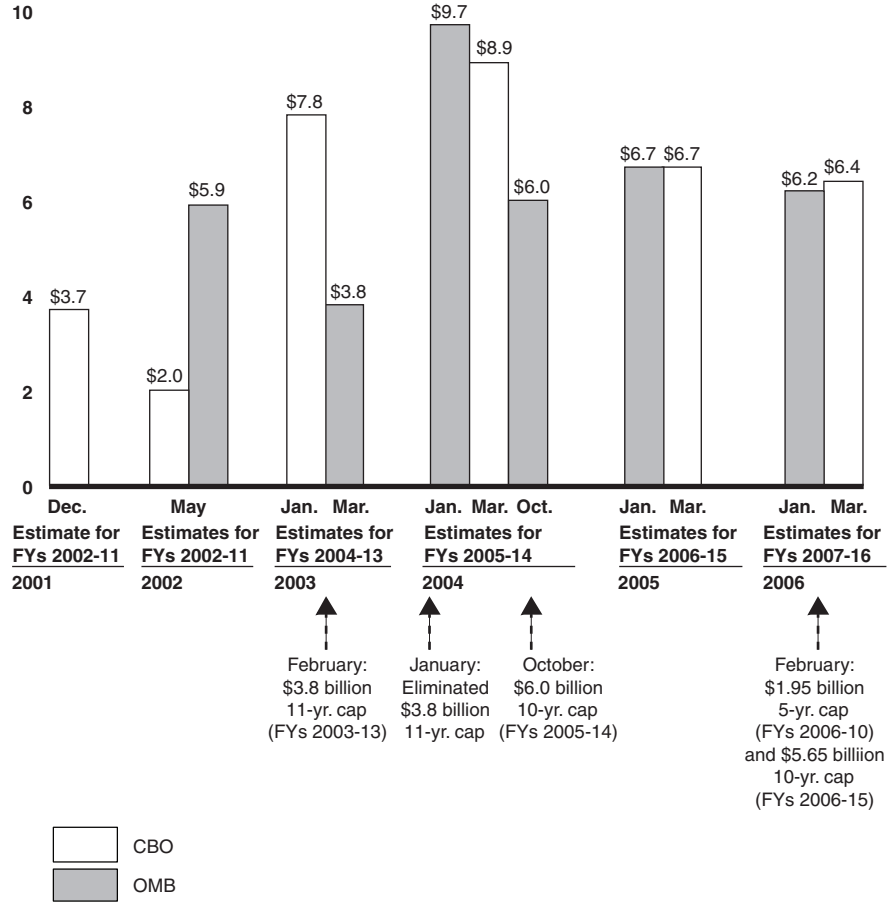
Estimates of CSP Costs Generally Have Increased over Time

Over time, CBO and OMB each made several estimates of CSP costs for specified 10-year periods, and these estimates generally increased.²⁸ CBO and OMB developed these estimates as part of their responsibilities for budget scoring (also known as scorekeeping). These responsibilities are discussed in appendix V. As reflected in figure 2, CBO and OMB estimates generally increased during the period 2001 through 2006, although at times the estimates dropped because of legislative actions to cap or limit CSP funding. Appendix VI also provides a more detailed time line of legislative actions and CBO and OMB 10-year estimates of CSP costs during the period 2001 through 2006.

²⁸NRCS also estimated CSP costs as part of benefit-cost assessments it prepared in conjunction with issuing an interim final rule (June 2004) and an amended interim final rule (March 2005) for CSP. Specifically, these assessments estimated the dollar value of the benefits, to the extent deemed possible, and costs associated with various program alternatives. According to the benefit-cost assessments, because of the simplifying assumptions that were used, these assessments should not be used to predict the actual magnitude of CSP costs.

Figure 2: Comparison of CBO and OMB 10-Year Estimates of CSP Costs

Dollars in billions



Sources: GAO analysis of CBO and OMB data and review of legislation.

Notes: (1) CBO's December 2001 estimate was based on an early Senate version of the farm bill, S. 1731. The farm bill, which called for establishment of CSP, was enacted into law on May 13, 2002. (2) The Deficit Reduction Act of 2005 repealed the \$6.0 (\$6.037) billion cap for fiscal years 2005 through 2014. Instead, the act limits CSP spending to \$1.954 billion for fiscal years 2006 through 2010 and to \$5.650 billion for fiscal years 2006 through 2015.

As shown in the figure, CBO made its first estimate of CSP costs—\$3.7 billion for fiscal years 2002 through 2011—in December 2001, about 5 months before the farm bill was enacted (May 13, 2002). At the time, CBO based its estimate on the Senate’s version of the farm bill; the House of Representative’s version of the farm bill did not include provisions for CSP at that time.²⁹ In early May 2002, just before the farm bill’s enactment, CBO estimated CSP costs to be \$2 billion for the same 10-year period. CBO officials cited changes in the final bill’s provisions as the basis for the reduction in its estimate.³⁰ They also cited an agreement they stated had been reached by members of the Senate Agriculture Committee that only \$2 billion of the new funds to be made available for the farm bill’s conservation title would be used for CSP. The farm bill, as enacted, does not specifically include a \$2 billion limit; however, it does include language that CBO officials said would result in reducing program costs to about \$2 billion. OMB also made its first estimate of CSP costs—\$5.9 billion for fiscal years 2002 through 2011—in May 2002, soon after the farm bill’s enactment. OMB officials said that, although they were aware of an agreement reached in the Senate to limit CSP funding to \$2 billion, because this limit was not included in the final legislation, they disregarded it in making their cost estimate. As a result, OMB’s cost estimate was nearly three times larger than CBO’s estimate, although both estimates were made in May 2002, were based on the same farm bill provisions, and covered the same 10-year period.

As indicated by the figure, subsequent CBO and OMB estimates of CSP costs were more similar and generally increased, except in cases where one or both agencies’ estimates reflected legislative actions to cap or limit CSP funding. For example, in January 2003, CBO estimated CSP costs to be \$7.8 billion for the 10-year period fiscal years 2004 through 2013. In February of that year, Congress enacted legislation that capped CSP funding at approximately \$3.8 billion through fiscal year 2013 in order to,

²⁹See S. 1731, 107th Cong. (2001); H.R. 2646, 107th Cong. (2001).

³⁰According to CBO officials, these changes included the following: (1) stewardship payment rates were reduced and the basis for stewardship payments was frozen at 2001 land rental rates; (2) maximum stewardship payments were reduced from 75 percent of the tier payment limit for all tiers to 25 percent for Tier I and 30 percent for Tiers II and III (e.g., the maximum stewardship payment for Tier I went from 75 percent of \$20,000 [\$15,000] to 25 percent of \$20,000 [\$5,000]); (3) cost share payment rates for new management practices were reduced; (4) eligibility requirements for the three tiers were made more complete; (5) the payment limit for Tier III contracts was reduced from \$50,000 to \$45,000; and (6) funding for CSP technical assistance was limited to 15 percent of total CSP funding.

according to OMB, generate savings for drought disaster assistance.³¹ The following month, in light of this cap, OMB estimated CSP costs to be \$3.8 billion for fiscal years 2004 through 2013. However, in January 2004, Congress repealed the \$3.8 billion cap.³² As a result, subsequent OMB and CBO estimates increased substantially.

Congress acted again to cap CSP funding in October 2004, passing legislation to limit the program's funding to approximately \$6 billion for the 10-year period fiscal years 2005 through 2014.³³ This action was taken to offset emergency supplemental appropriations for hurricane disaster assistance. Later that month, because of the cap, OMB estimated CSP costs to be \$6 billion for the same period. However, in January 2004, about 9 months earlier, OMB had estimated the costs for this 10-year period to be \$9.7 billion.

In 2005, both agencies estimated CSP costs to be \$6.7 billion for the 10-year period fiscal years 2006 through 2015. In large measure, these estimates reflected the \$6 billion legislative cap covering fiscal years 2005 through 2014.³⁴ However, that cap was scheduled to expire at the end of fiscal year 2014, meaning the estimated costs for fiscal year 2015 were not subject to a cap. In February 2006, Congress repealed the \$6 billion cap, replacing it with caps of \$1.954 billion for fiscal years 2006 through 2010 and \$5.650 billion for fiscal years 2006 through 2015.³⁵ The estimate made by OMB in January 2006—\$6.2 billion for fiscal years 2007 through 2016—anticipated this change. CBO's March 2006 estimate for fiscal years 2007 through 2016 was \$6.4 billion.

³¹Pub. L. No. 108-7, tit. II, § 216, 117 Stat. 538, 546 (2003). The exact amount of this cap was \$3.773 billion.

³²Pub. L. No. 108-199, § 101, 118 Stat. 3, 434 (2004).

³³Pub. L. No. 108-324, § 101, 118 Stat. 1220, 1231 (2004). The exact amount of this cap was \$6.037 billion.

³⁴Congress also has acted to limit CSP's funding on an annual basis. For example, in fiscal year 2004, Congress limited the total funding available for CSP to \$41.443 million. For fiscal year 2005, Congress capped funding for salaries and expenses of personnel to carry out CSP to \$202.411 million. USDA officials said that they consider the fiscal year 2005 cap to be a limit on the total funding available for CSP. A cap on the available funding for a given year affects estimates for subsequent years because the cap limits the number of producers receiving CSP contract payments that year and in subsequent years covered by their contracts.

³⁵Deficit Reduction Act of 2005, Pub. L. No. 109-171, § 1202, 120 Stat. 4, 5 (2006).

As More Information on CSP Implementation Became Available, Cost Estimates Increased

According to CBO and OMB officials, the primary reason for increases in their estimates of CSP costs over time is that subsequent estimates have been better informed. Specifically, subsequent estimates have been better informed by USDA's development and implementation of program regulations and data from the results of program sign-ups. As a result, these estimates more accurately capture program costs, resulting in higher estimates.

At CSP's inception in May 2002, little information was available about how it would be implemented and the expected level of producer participation. CBO and OMB officials noted that the farm bill provided a basic framework for CSP and only a very limited basis for cost estimation, giving USDA wide discretion on how to implement the program. Consequently, these officials had to rely on their professional judgment and past experience with estimating costs when making assumptions about key aspects of CSP, such as the level of participation, number of acres enrolled, land rental rates,³⁶ and the amount and types of payments made. However, according to CBO and OMB officials, CSP's uniqueness made this more difficult as these officials had not made cost estimates for a similar program in the past.

Later, NRCS's development of CSP regulations provided key information on how the program would be implemented. In this regard, NRCS issued an advance notice of proposed rulemaking in February 2003; a proposed rule in January 2004; an interim final rule in June 2004; and an amended interim final rule in March 2005. For example, the proposed rule indicated that NRCS planned to limit enrollments to specific sign-up periods rather than allow continuous sign-ups; limit CSP enrollment to producers in selected, priority watersheds rather than offer nationwide enrollment for a given sign-up; and prioritize funding by way of enrollment categories to ensure that producers with the highest commitment to conservation are funded first. The amended interim final rule incorporates each of these elements. In addition, CBO and OMB officials had informal conversations with NRCS officials to obtain information on how the agency intended to implement the program. For example, CBO officials said that they learned that NRCS anticipated program participation would be greater than it originally expected and that enhancement payments would be a more important

³⁶The farm bill requires USDA to determine CSP base payments based on either the average national per-acre rental rate for a specific land use during the 2001 crop year or another appropriate rate for the 2001 crop year that ensures regional equity.

component of total producer payments than originally planned.³⁷ OMB also reviewed and commented on NRCS's proposed and interim final rules before their publication in the *Federal Register*.³⁸ And CBO and OMB officials indicated that they conferred with one another from time to time to discuss issues related to estimating CSP costs, although the agencies arrived at their estimates independently.

Finally, CBO and OMB officials stated that after making their initial CSP cost estimates at the program's inception, they had more time to develop subsequent estimates, including more time to gather and consider program implementation information. They also said that their future estimates of program costs will be even better informed as more data become available from each annual CSP sign-up, including data on program participation and the mix of payments made by tier and type.

Changing Time Frames Also Account for Increases in Estimates

CBO and OMB officials also attributed increases in their CSP cost estimates to revisions in the time frames on which the estimates were based.³⁹ In making their initial estimates in May 2002, CBO and OMB took into account a time lag assumed for program development and implementation by NRCS, which included the time needed for rulemaking and public comment, training NRCS field staff, and outreach to producers and stakeholder groups. Thus, these initial estimates, covering the 10-year period fiscal years 2002 through 2011, included years in which the program was either not expected to be operational, such as fiscal years 2002 and 2003, or minimally operational, such as fiscal year 2004. For example, in CBO's May 2002 estimate, the costs associated with these first 3 fiscal years totaled only \$22 million. In contrast, CBO's March 2004 estimate, covering a later 10-year period, fiscal years 2005 through 2014, assumed the program would be fully operational in each of these years. CBO's cost estimates for the three additional fiscal years—2012, 2013, and 2014—totaled \$3.1 billion.

³⁷Enhancement payments are made for additional listed conservation activities (known as enhancements) that provide increased resource benefits beyond the minimum standard. In order for a producer to receive the full amount of financial assistance available under each of CSP's payment tiers, the producer must undertake enhancements.

³⁸The regulation was subject to review by OMB's Office of Information and Regulatory Affairs. See Executive Order No. 12866, 58 *Fed. Reg.* 51735 (Sept. 30, 1993).

³⁹Each year, CBO and OMB prepare estimates of budgetary costs for the next 10 fiscal years. For example, in March 2004, CBO prepared an estimate of budgetary costs for fiscal years 2005 through 2014.

Thus, the substitution of fiscal years 2012 through 2014 in the latter estimate for fiscal years 2002 through 2004 in the earlier estimate amounted to an increase of more than \$3 billion and helps to explain, in part, why the subsequent estimate was greater. Table 2 provides further information on CBO estimates of CSP costs for various 10-year periods during fiscal years 2002 through 2016.

Table 2: CBO's CSP Cost Estimates, Fiscal Years 2002 through 2016

Dollars in millions

Date of estimate	Estimates by fiscal year															10-year total
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
May 2002	0	\$3	\$19	\$55	\$110	\$182	\$267	\$361	\$459	\$544	-	-	-	-	-	\$2,000
January 2003	^a	^a	73	177	319	493	687	877	1,050	1,207	1,378	1,499	-	-	-	7,760
March 2004	-	^a	^a	282	649	846	942	993	1,018	1,032	1,039	1,045	1,050	-	-	8,896
March 2005 ^b	-	-	^a	^a	331	450	582	676	737	761	767	768	761	835	-	6,668
March 2006 ^c	-	-	-	^a	^a	\$373	\$446	\$436	\$440	\$579	\$685	\$763	\$794	\$875	\$1,008	\$6,399

Source: CBO.

Note: Dashes (-) indicate that CBO did not include an estimate for that fiscal year.

^aEstimates were provided for these years but were not included in the table to show only the years included in the 10-year estimate total.

^bThis is a capped estimate for all years except 2015, based on legislation capping the program at \$6.037 billion over 10 years (fiscal years 2005 through 2014) to help pay for agricultural disaster assistance.

^cThis is a capped estimate for all years except 2016 based on the Deficit Reduction Act of 2005 that established caps on program funding of \$1.954 billion for fiscal years 2006 through 2010 and \$5.650 billion for fiscal years 2006 through 2015.

A similar pattern can be seen with OMB's estimates. OMB's May 2002 estimate, covering the 10-year period fiscal years 2002 through 2011, included fiscal years 2002, 2003, and 2004, years in which the program was assumed not to be implemented or only minimally implemented. OMB's estimate for these 3 fiscal years was \$98 million. In contrast, OMB's January 2004 estimate, covering a later 10-year period, fiscal years 2005 through 2014, included three additional years, fiscal years 2012, 2013, and 2014. OMB's estimate for these years was \$4.049 billion. Thus, the substitution of fiscal years 2012 through 2014 in the latter estimate for

fiscal years 2002 through 2004 in the earlier estimate amounted to an increase of about \$3.95 billion and helps to explain, in part, why the subsequent estimate was greater. Table 3 provides further information on OMB estimates of CSP costs for various 10-year periods during fiscal years 2002 through 2016.

Table 3: OMB’s CSP Cost Estimates, Fiscal Years 2002 through 2016

Dollars in millions

Date of estimate	Estimates by fiscal year															10-year total
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
May 2002	0	\$11	\$87	\$270	\$442	\$659	\$870	\$1,015	\$1,183	\$1,278	-	-	-	-	-	\$5,858
March 2003 ^b	-	-	10	77	166	261	356	442	527	612	658	681	-	-	-	3,788
January 2004	-	-	^a	249	457	665	873	1,046	1,118	1,191	1,264	1,337	1,448	-	-	9,650
October 2004 ^c	-	-	-	249	348	465	582	675	668	704	740	777	832	-	-	6,041
January 2005 ^d	-	-	-	^a	314	470	559	648	693	738	760	804	849	893	-	6,728
January 2006 ^e	-	-	-	-	^a	\$342	\$396	\$456	\$500	\$640	\$723	\$719	\$783	\$831	\$831	\$6,222

Source: OMB.

Note: Dashes (-) indicate that OMB did not include an estimate for that fiscal year.

^aEstimates were provided for these years but were not included in the table to show only the years included in the 10-year estimate total.

^bThis is a capped estimate based on legislation capping the program at \$3.773 billion over 11 years (fiscal years 2003 through 2013) to, according to OMB, help pay for drought disaster assistance. This cap was later removed in early 2004.

^cThis is a capped estimate based on legislation capping the program at \$6.037 billion over 10 years (fiscal years 2005 through 2014) to help pay for agricultural disaster assistance.

^dThis is a capped estimate for all years except fiscal year 2015.

^eThis is a capped estimate for all years except fiscal year 2016 based on the Deficit Reduction Act of 2005 that established caps on program funding of \$1.954 billion for fiscal years 2006 through 2010 and \$5.650 billion for fiscal years 2006 through 2015.

USDA Has Authority to Control CSP Costs and Has Established Cost Control Measures but Needs to Improve Internal Controls and Better Ensure Consistency in NRCS State Offices' Determinations of Producer Eligibility

The farm bill provides USDA general authority to control CSP costs. While USDA's NRCS has established several cost control measures under this statutory authority, its efforts to restrict program spending could be improved by addressing (1) weaknesses in internal controls used to ensure the accuracy of program payments and (2) inconsistencies in the wildlife resource criteria used by NRCS state offices to determine producer eligibility for Tier III, the highest CSP payment level. Furthermore, because of inconsistencies in wildlife resources criteria, NRCS cannot ensure that CSP is achieving its intended wildlife habitat benefits.

The Farm Bill Provides USDA Authority to Control CSP Costs

The farm bill establishes some eligibility requirements for CSP but gives USDA the authority to establish additional requirements that would enable it to control CSP costs, even absent legislative caps on CSP funding. For example, the farm bill establishes some producer and land eligibility requirements for CSP but also states that a payment under CSP "may" be received under three tiers of conservation contracts and that the Secretary of Agriculture "shall" determine and approve the minimum eligibility requirements for each tier—giving USDA the authority to establish additional eligibility requirements that would enable it to control program participation and, therefore, CSP costs.⁴⁰ This provision, for example, gives the Secretary discretion to establish a tier eligibility requirement that a producer be located within a specified watershed. The Secretary also must approve a producer's conservation stewardship plan—as meeting both the statutory eligibility requirements and any tier requirements—for the producer to be eligible to participate in CSP.⁴¹ In addition, the Secretary must ensure that the lowest cost conservation practice alternative is used to fulfill the purposes of the plan.⁴² Furthermore, the farm bill sets a

⁴⁰16 U.S.C. § 3838a(d)(6).

⁴¹16 U.S.C. § 3838a(b)(1)(A). Such plans are referred to as Conservation Security Plans in the farm bill but are called Conservation Stewardship Plans by NRCS.

⁴²16 U.S.C. § 3838a(d)(1)(B)(ii).

payment limit for each tier level (\$20,000 for Tier I; \$35,000 for Tier II; and \$45,000 for Tier III) but, in stating that payments shall be determined by the Secretary and shall not exceed such amounts, provides discretion to the Secretary to further limit the payment amounts.⁴³

NRCS Established Cost Control Measures in CSP Regulations Designed to Limit Program Enrollment and Payments

Under the statutory authority provided by the farm bill, NRCS has implemented a number of CSP cost control measures to restrain program spending, primarily by either restricting CSP enrollment or limiting payments to individual producers. For example, NRCS restricts CSP participation by limiting program enrollment each year to producers in specified, priority watersheds. In addition, NRCS limits annual stewardship payments to 25, 50, and 75 percent of the maximum amount that the farm bill allows for Tiers I, II, and III, respectively. Key cost control measures—found either in the farm bill, in CSP regulations, or in the program sign-up notice—in place for the fiscal year 2005 CSP sign-up are described in table 4.

⁴³16 U.S.C. § 3838c(b).

Table 4: Key Farm Bill and Regulatory Cost Control Measures Used in the Fiscal Year 2005 CSP Sign-up

Cost control measures	Farm bill	NRCS's CSP regulations and fiscal year 2005 sign-up notice
Program enrollment limited to specified watersheds	No specific language to restrict enrollment based on location. However, the Secretary of Agriculture shall determine and approve the minimum eligibility requirements for each tier.	One of the eligibility requirements is that a majority of the agricultural operation must be within a watershed selected for sign-up. According to NRCS, limiting enrollment each year to priority watersheds enables NRCS to adjust the potential scope of the program in accordance with the available funding. In addition, according to NRCS, this approach constrains technical assistance costs associated with processing CSP applications by limiting the number of applications.
Sign-ups are periodic, not continuous	No specific language regarding when sign-ups should occur.	CSP enrollment is restricted to specified sign-up periods. For example, the fiscal year 2005 sign-up period ran from March 28, 2005, through May 27, 2005.
Minimum conservation treatment requirements for eligibility	<p>Tier I: An applicant must—in a plan of conservation practices—(1) address at least one significant resource of concern for the enrolled portion of the agricultural operation at a level that meets the appropriate nondegradation standard and (2) cover active management of conservation practices that are implemented or maintained under the conservation security contract.^a</p> <p>Tier II: An applicant must—in a plan of conservation practices—(1) address at least one significant resource of concern for the entire agricultural operation at a level that meets the appropriate nondegradation standard and (2) cover active management of conservation practices that are implemented or maintained under the conservation security contract.</p> <p>Tier III: An applicant must—in a plan of conservation practices—(1) apply a resource management system that meets the appropriate nondegradation standard for all resources of concern for the entire agricultural operation and (2) cover active management of conservation practices that are implemented or maintained under the conservation security contract.^c</p>	<p>Tier I: An applicant must have addressed both soil and water (i.e., two) resource concerns on at least part of the operation to a specified minimum level of treatment.^b</p> <p>Tier II: An applicant must have addressed both soil and water (i.e., two) resource concerns on the entire operation to a specified minimum level of treatment. In addition, the applicant must agree to address an additional resource concern by the end of the contract period.</p> <p>Tier III: An applicant must have addressed all applicable resource concerns on the entire operation to a specified minimum level of treatment.^d</p>
Prioritization of eligible applications for funding	No specific language to prioritize eligible applications. However, the Secretary of Agriculture shall determine and approve the minimum eligibility requirements for each tier. ^e	New program enrollments may be limited in any fiscal year to enrollment categories designed to focus on priority conservation concerns and enhancement measures. For the fiscal year 2005 sign-up, NRCS placed all eligible applications into five enrollment categories that prioritized applications for funding. Beginning with the highest enrollment category, NRCS accepted applications until the available funding was exhausted. ^f

(Continued From Previous Page)

Cost control measures	Farm bill	NRCS's CSP regulations and fiscal year 2005 sign-up notice
Requirement for documentation of existing conservation treatment	No specific language to require documentation of existing conservation treatment. However, the Secretary of Agriculture shall determine and approve the minimum eligibility requirements for each tier.	An applicant must provide NRCS with documentation that includes information on existing conservation practices, treatment, and activities on the applicant's operation. NRCS used this information to determine if the application met the minimum eligibility requirements and, if so, to place the application in an enrollment category.
Limits on total CSP contract payments	Annual contract payments to an individual or entity shall not exceed \$20,000 for Tier I; \$35,000 for Tier II; and \$45,000 for Tier III.	The payment limits per contract were not changed. A CSP applicant may submit only one application per sign-up period and have only one active contract at any time.
Limits on stewardship (base) payments	Annual stewardship payments are limited to \$5,000 for Tier I, \$10,500 for Tier II, and \$13,500 for Tier III. For a given contract, the stewardship payment is based on (1) the average national per-acre rental rate for a specific land use during the 2001 crop year or another appropriate rate for the 2001 crop year that ensures regional equity and (2) a tier-specific percentage (i.e., 5 percent for Tier I; 10 percent for Tier II; and 15 percent for Tier III).	Further reduces the stewardship payment to a percentage of the amount calculated under the farm bill formula (i.e., 25 percent for Tier I, 50 percent for Tier II, and 75 percent for Tier III).
Limits on existing conservation practice (maintenance) payments	Payments to maintain existing conservation practices are limited to 75 percent of the average county costs of the practices for the 2001 crop year. For a beginning producer, this limit is 90 percent.	Existing practice payments may be limited for any given sign-up. For the 2005 sign-up, existing practice payments were set at 25 percent of the stewardship payment. ⁹
Limits on new conservation practice payments	New practice payments are limited to 75 percent of the cost of the average county costs of the practices for the 2001 crop year. For a beginning producer, this limit is 90 percent.	New practice payments were limited to 50 percent of the cost of adopting the practice during the 2001 crop year. For a beginning producer, this limit was 65 percent. In addition, new practice payments were limited to a total of \$10,000 over the life of a CSP contract. Furthermore, within each watershed, only designated conservation practices were eligible for new practice payments.
Limits on enhancement payments	No specific language to limit enhancement payments.	An enhancement payment limit or variable rate may be set for any given sign-up. For the 2005 sign-up, annual enhancement payments were limited to \$13,750 for Tier I contracts; \$21,875 for Tier II contracts; and \$28,125 for Tier III contracts.

Sources: GAO analysis of the farm bill and NRCS's amended interim final CSP rule, 70 *Fed. Reg.* 15212 (Mar. 25, 2005) (7 C.F.R. pt. 1469) and 2005 sign-up notice, 70 *Fed. Reg.* 15277 (Mar. 25, 2005).

^aThe nondegradation standard is defined as the level of measures required to adequately protect and prevent degradation of one or more natural resources as determined by NRCS in accordance with the quality criteria described in its handbooks.

^bFor Tiers I and II, the minimum level of treatment for soil quality on cropland is considered achieved when the soil conditioning index is positive. For Tiers I and II, the minimum level of treatment for water quality on cropland is considered achieved if the current level of treatment meets or exceeds NRCS's quality criteria for the specific resource concerns of nutrients, pesticides, sediment, and salinity for surface water and nutrients, pesticides, and salinity for groundwater. For Tiers I and II, the minimum level of treatment on pastureland and rangeland is vegetation and animal management accomplished by following a grazing management plan that provides for (1) a forage-animal balance, (2) proper livestock distribution, (3) timing of use, and (4) managing livestock access to water courses. To

determine that resource concerns were managed at specified minimum levels of conservation treatment, NRCS field office staff reviewed information provided by the applicant and verified the accuracy of this information through interviewing the applicant and, in some cases, performing field checks.

^cA resource management system is a system of conservation practices and management relating to land or water use that is designed to prevent resource degradation and permit sustained use of land, water, and other resources, as defined in accordance with the NRCS technical guide.

^dThe minimum level of treatment for Tier III is having a fully implemented resource management system that meets the quality criteria for the local NRCS field office technical guide for all applicable resource concerns and considerations with the following exceptions: (1) the minimum requirement for soil quality on cropland is considered achieved when the soil conditioning index is positive, (2) the minimum requirement for water quantity and irrigation water management on cropland or pastureland is considered achieved when the current level of management for the system results in a water use index value of at least 50, and (3) the minimum requirement for wildlife is considered achieved when the current level of treatment and management for the system results in an index value of at least 0.5 using a general or species specific habitat assessment guide. In addition, for Tier III, all riparian corridors, including streams and natural drainages, within the agricultural operation must be buffered to restore, protect, or enhance riparian resources. As appropriate, riparian corridors must be managed or designed to intercept sediment, nutrients, pesticides, and other materials in surface runoff; reduce nutrients and other pollutants in shallow subsurface water flow; lower water temperature; and provide litter fall or structural components for habitat complexity or to slow out-of-bank floods.

^eThe farm bill provides that “[i]n entering into conservation security contracts with producers...the Secretary shall not use competitive bidding or any similar procedure.” Some stakeholders view NRCS’s use of enrollment categories as being inconsistent with this statutory language. However, NRCS has stated that it is not implementing a competitive process but is merely implementing the statutory scheme of providing payments for those applicants meeting specified criteria, so as to stay within the budgetary and technical assistance limits.

^fPlacement of applications into the five enrollment categories was based on the conservation treatment in place for at least 2 years, as well as soil conditioning index levels. If all the applications in an enrollment category could not be funded, the applications were funded based on subcategories. In the fiscal year 2005 sign-up, placement in these subcategories was based on various factors such as whether the applicant was a limited resource producer.

^gAccording to an NRCS official, NRCS generally lacks data on the cost of maintaining conservation practices in the 2001 crop year. As a result, NRCS calculates existing practice payments based on 25 percent of the stewardship payment amount. According to another NRCS official, this alternative results in lower payments. In addition, NRCS stipulates in its regulation that existing practice payments may be based on a percentage of the stewardship payment if this payment does not exceed 75 percent of the average 2001 county cost of installing the conservation practice.

Some Fiscal Year 2004 CSP Contract Payments Exceeded Farm Bill Payment Limits

Some fiscal year 2004 CSP contract payments exceeded applicable payment limits established in the farm bill. As discussed, the farm bill limited annual contract payments to an individual or entity to \$20,000 for Tier I; \$35,000 for Tier II; and \$45,000 for Tier III. However, we found that 409 (19 percent) of the 2,180 fiscal year 2004 CSP contract payments exceeded these limits. Specifically, 95 (12 percent) of Tier I payments exceeded \$20,000; 209 (24 percent) of Tier II payments exceeded \$35,000; and 105 (21 percent) of Tier III payments exceeded \$45,000. (Tables 12, 13, and 14 in app. II show the distribution of fiscal year 2004 contract payments for Tiers I, II, and III, respectively.)

According to NRCS officials, these contract payments exceeded the statutory limits because they included an “advance” enhancement payment component. These officials noted that NRCS did not intend for this advance component to be included in the annual contract payment limit because it was a one-time payment. Furthermore, they said that any producer who received an advance enhancement payment would have that payment (generally limited to \$10,000) offset through deductions over the remaining years of that producer’s CSP contract. For example, for a producer whose contract had 9 remaining years, NRCS would deduct one-ninth of the advance enhancement payment in each of these years. Thus, over the life of a contract, no producer would receive more than the maximum total possible payment (e.g., \$450,000 over 10 years for a Tier III contract). NRCS officials explained that for the fiscal year 2004 CSP sign-up, NRCS, using its borrowing authority, obtained the maximum amount of funding available, or \$41.443 million. However, because of lower than anticipated producer participation in CSP that year, NRCS did not need all of this money to make annual contract payments to producers. NRCS decided to use the remaining amounts—about \$13.6 million—to make a one-time advance enhancement payment to most (2,070 of 2,180) of the producers enrolled in CSP that year.⁴⁴ In addition, according to NRCS officials, in subsequent years, the offsetting deductions made for these fiscal year 2004 advance enhancement payments would result in more funding being available for new CSP contracts.

We plan to pursue with USDA’s Office of General Counsel the availability of remaining CSP funds for advance enhancement payments that, when included with annual contract payments, exceed the statutory payment limits.

⁴⁴NRCS’s CSP sign-up notices for fiscal years 2005 and 2006 indicated that advance enhancement payments would be available in those years as well. However, unlike the 2004 sign-up, the 2005 and 2006 sign-up notices stated that the annual maximum payment limits would include any advance enhancement payment made to a producer. NRCS did not make advance enhancement payments in 2005. The results of the 2006 sign-up were not available as of early April 2006.

Although NRCS Has Established Internal Controls, Weaknesses in These Controls Increase the Risk of Improper Payments

In addition to the cost control measures in the farm bill and CSP regulations, USDA and NRCS have established internal controls that help to ensure the accuracy and appropriateness of payments made through agricultural conservation programs, including CSP. These controls, also referred to as management controls, include the organizational policies and procedures used to reasonably ensure that (1) programs achieve their intended results; (2) resources are used consistent with agency and departmental missions; (3) programs and resources are protected from waste, fraud, and mismanagement; (4) laws and regulations are followed; and (5) reliable and timely information is obtained, maintained, reported, and used for decision-making.⁴⁵ (More specific information on USDA and NRCS internal controls is presented in app. VII.) However, recent reviews of these internal controls done by NRCS's Oversight and Evaluation (O&E) Staff and the USDA Inspector General raise concerns regarding the adequacy of some of these controls to preclude improper payments being made under CSP.

Although NRCS has established internal control guidance for CSP, implementation of these controls has sometimes been criticized. For example, in reviews it conducted in 2005, NRCS's O&E staff found problems with several aspects of the agency's implementation of CSP, including its implementation of some internal controls. (We examined draft reports related to these reviews in January 2006; NRCS considers the information contained in these drafts to be predecisional and subject to change pending management review and the agency's preparation of management action plans describing its response to the reports' recommendations.) In assessing internal controls, the O&E staff conducted work at NRCS field offices located in 18 watersheds (in 13 states) that were eligible for either the fiscal year 2004 or fiscal year 2005 CSP sign-up. Among other things, the staff found weaknesses in quality assurance and case file documentation. For example, the staff found that 12 of 13 NRCS state-level Quality Assurance Plans reviewed did not include specific CSP components such as those related to conservation planning

⁴⁵*Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, Washington, D.C.: November 1999) defines internal controls as an integral component of an organization's management that provides reasonable assurance that effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations are being achieved. The five standards of internal control are control environment, risk assessment, control activities, information and communications, and monitoring. The terms internal control, management control, and administrative control are often used interchangeably.

and application, that NRCS's *Conservation Programs Manual* (sec. 518.75 (b)) states must be included. In addition, the staff found that 33 of 55 fiscal year 2004 CSP contracts studied had not had a contract review. The *Conservation Programs Manual* (sec. 518.101) provides that "the designated [NRCS] conservationist will review the contract annually and document that the provisions of the contract are followed." According to the O&E staff, the absence of a contract review could result in payments being made for enhancements that are not being done or not yet completed as scheduled in the producer's conservation security plan.

Regarding case file documentation, the O&E staff found that many conservation stewardship plans were missing components. For example, most plans included components such as maps and map attribute information, but information needed to evaluate the effectiveness of a plan in achieving its environmental objectives was either missing or incomplete in up to 60 percent of the plans. The preparation of conservation stewardship plans is required by the farm bill and, according to the *Conservation Programs Manual* (sec. 518.70), this plan "is the basis for a conservation stewardship contract." In general, a plan identifies the objectives for the associated contract, the time frames for implementing new practices, enhancements that will impact payment levels over the life of the contract, and additional measures needed to move to a higher tier level. In light of these findings, O&E staff offered several tentative recommendations related to revising NRCS's written guidance documents, developing a checklist for staff to use in compiling conservation stewardship plans, improving management oversight, and providing staff further training.

In addition, other aspects of NRCS's internal controls have been criticized. For example, in January 2005, the USDA Inspector General reported that (1) NRCS had neither identified the internal control measures in place to preclude, or detect in a timely manner, improper payments for the programs it administers, including CSP, nor did it know if the controls were in operation and (2) NRCS had not conducted risk assessments of potential improper payments for these programs. In addition, USDA reported several material weaknesses to its financial and accounting systems and information security program in its fiscal year 2005 *Performance and Accountability Report*. See appendix VII for further discussion of these matters.

In its planning documents, NRCS notes that the nation made a massive financial commitment to conservation in the 2002 farm bill and thus NRCS

must manage the taxpayers' money well, including documenting how these funds have been spent. Among other things, the agency said it would develop processes to better record obligations and improve the accuracy and timeliness of its financial information. However, until actions are completed to correct these internal control problems, NRCS cannot be certain that contract payments information for CSP and other programs is accurate. This increases the potential for improper payments being made under these programs.

Inconsistencies in State Office Determinations of Producer Eligibility for CSP Payments May Undermine NRCS Cost Controls and the Achievement of CSP's Intended Wildlife Habitat Benefits

NRCS's efforts to control program spending may be weakened by inconsistencies in NRCS state offices' determinations of producer eligibility for the three CSP payment tiers. Several NRCS state officials expressed concerns about such inconsistencies, suggesting that some state offices may have been more lenient than their own state in determining producers' eligibility for CSP payments. In particular, several NRCS state officials had specific concerns about inconsistencies in the wildlife habitat assessment criteria that NRCS state offices use, in part, to determine applicant eligibility for Tier III, the highest CSP payment level.⁴⁶ The farm bill requires a producer to meet minimum standards for all applicable resource concerns on the entire agricultural operation, which would include wildlife habitat, to be eligible for Tier III payments.⁴⁷

For the fiscal year 2004 CSP sign-up, NRCS provided limited guidance to its state offices that were responsible for developing the assessment criteria that were used to determine whether a producer met minimum standards for protecting wildlife habitat. However, a post-sign-up debriefing of NRCS headquarters and state officials to identify lessons learned indicated that the state offices developed assessment criteria that were extremely variable, contributing to significant differences in the rate of CSP participation and payments at the Tier III level among the various

⁴⁶Other NRCS state officials did not share the concern that state offices' wildlife habitat assessment criteria were inconsistent. They generally stated that they view CSP as a "working lands" program that should be flexible and not overemphasize wildlife habitat.

⁴⁷Wildlife habitat could also be a factor in determining applicant eligibility for Tier II. For example, to be eligible for Tier II under NRCS's fiscal year 2005 sign-up notice, an applicant must address a third applicable resource concern—in addition to soil and water quality—by the end of the contract period. For some watersheds, NRCS identified wildlife habitat as this third resource concern.

watersheds included in the sign-up.⁴⁸ According to documentation based on this debriefing, this variability in assessment criteria was attributed to (1) differences in the type of assessment criteria used (i.e., some states used targeted species assessment criteria while others used general wildlife assessment criteria) and (2) differences among the states' general wildlife assessment criteria. Table 5 shows the Tier III participation and payment rates for each of these watersheds.

⁴⁸In addition, Environmental Defense, a national environmental organization, reviewed the fiscal year 2004 assessment criteria and reported—in a November 2004 discussion paper, “Targeting Wildlife through the Conservation Security Program (CSP): Assessment of the 2004 Sign-up”—that the criteria were highly unequal from watershed to watershed. This paper, coauthored by a former NRCS wildlife biologist, also raised questions about whether significant wildlife habitat benefits were being achieved on all operations determined to be eligible for Tier III payments.

Table 5: Tier III Contracts and Payments by Watershed, Fiscal Year 2004

Watershed/lead NRCS state office	Tier III contracts	Total contracts	Percentage of total contracts in Tier III	Tier III contract payments	Total payments	Percentage of total payments for Tier III contracts
Auglaize Ohio	66	189	35%	\$982,117	\$2,831,953	35%
Blue Earth Minnesota	9	280	3	183,424	3,242,507	6
East Nishnabotna Iowa	8	145	6	86,356	1,129,248	8
Hondo Texas	8	16	50	61,205	71,766	85
Kishwaukee Illinois	16	191	8	304,386	4,828,559	6
Lemhi Idaho	10	18	56	289,917	379,555	76
Little Georgia	0	37	0	0	949,539	0
Little River Ditches Missouri	12	189	6	311,548	4,424,805	7
Lower Chippewa Wisconsin	50	207	24	836,637	2,056,147	41
Lower Little Blue Kansas	18	143	13	342,893	1,204,849	28
Lower Salt Fork Arkansas Oklahoma	57	176	32	552,618	1,305,590	42
Lower Yellowstone Montana	13	49	27	327,821	874,217	37
Moses Coulee Washington	4	43	9	92,563	826,985	11
Punta de Agua New Mexico	15	19	79	584,594	626,491	93
Raystown Pennsylvania	14	36	39	82,556	145,831	57
Saluda South Carolina	1	76	1	272	138,619	< 1
St. Joseph Indiana	125	217	58	3,122,554	4,183,158	75
Umatilla Oregon	83	149	56	3,860,988	5,237,575	74
Total	509	2,180	23%	\$12,022,446	\$34,457,394	35%

Source: GAO analysis of NRCS data (as of July 27, 2005).

As shown in the table, the percentage of total contracts in Tier III varied from a low of 0 in one watershed to a high of 79 percent in another watershed. Part of this variation may be attributed to differences in land uses among watersheds. For example, land that is in an intensive agricultural use, such as cropland, tends to be less suitable as wildlife habitat than land that is not used intensively such as rangeland. However, even among watersheds in which CSP enrollments were over 90 percent cropland—Auglaize, Blue Earth, East Nishnabotna, Kishwaukee, Little, Little River Ditches, Lower Chippewa, Raystown, and St. Joseph—the percentage of total contracts in Tier III varied from 0 to 58 percent, and the percentage of payments going to Tier III contracts ranged from 0 to 75 percent.

In response to the variation in wildlife habitat assessment criteria used during the fiscal year 2004 sign-up and related differences in Tier III participation, NRCS's Wildlife Team, responsible for technical matters concerning wildlife habitat under CSP, developed national guidance that NRCS state offices were to follow in creating their criteria for subsequent sign-ups. The national guidance was provided to state office staff during training sessions held before the fiscal year 2005 CSP sign-up.

The Wildlife Team developed the national guidance based on NRCS's CSP regulations that state that the minimum requirement for wildlife habitat is considered achieved when a producer's level of treatment and management results in an index value of at least 0.5 based on a general or species-specific habitat assessment guide. A Wildlife Team official said this 0.5 index value corresponds to 50 percent of the potential habitat for a given land area⁴⁹ and stated that the national guidance was developed accordingly. He noted that, because habitat needs differ across the nation, it is not possible to develop one set of criteria that would work for the whole country and apply to all situations. Because of these differences, the national guidance instructs each state to define its own minimum criteria for each of the listed wildlife resource components in the national guidance

⁴⁹“Potential habitat” refers to that portion of the land area of an operation that would be needed to support general or species-specific habitat needs, such as food, cover, and water. For example, potential habitat areas could include shelterbelts or buffers consisting of trees, shrubs, grasses, or other perennial vegetation interspersed with cropland fields.

based upon the state's own unique set of conditions.⁵⁰ For example, for rangeland, the national guidance identifies vegetative height management during nesting season as a component that must be addressed and instructs state offices to define the minimum foliage height of grasses. Despite this flexibility, the official said that the purpose of this national guidance was to avoid the wide variations in criteria that led to large discrepancies and inconsistencies in the fiscal year 2004 sign-up.

According to the national guidance, NRCS state offices' general wildlife habitat assessment criteria for cropland must address the following six wildlife resource components:⁵¹

- *Amount of noncrop vegetative cover.* These areas include woodlots, windbreaks, field corners, hedgerows, grassed areas, wetlands, or riparian areas managed for wildlife. According to the guidance, state offices must define a minimum percentage of noncrop vegetative cover within or adjacent to offered cropland fields.⁵² A state office's criteria for this component must be met for each cropland field.⁵³
- *Size of noncrop vegetative cover.* State offices must define a minimum dimension for these areas. According to a Wildlife Team official, an example is a minimum width.

⁵⁰This instruction pertains to general wildlife habitat assessment criteria. For species-specific criteria—referred to in the national guidance as models for species of conservation concern—the guidance instructs state offices to define the habitat elements (food, cover, and water) that are required and rate those elements based upon the degree to which they are present within the assessment area.

⁵¹In addition to a list of components for cropland, the national guidance includes separate wildlife resource component lists for rangeland, hayland, and pastureland. According to NRCS officials, establishing habitat assessment criteria for cropland is particularly difficult, because cropland is used intensively and generally is less compatible with wildlife habitat than other land uses. On an acreage basis, cropland is the leading type of land enrolled in CSP.

⁵²According to NRCS officials, this noncrop vegetative cover does not necessarily need to be land that the producer has recently removed from crop production. That is, it can be land that has not been used for crop production in recent years or was never used for crop production.

⁵³Under this guidance, state office criteria regarding size, interspersion, and condition of noncrop vegetative cover must also be met for each cropland field.

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- *Interspersion of noncrop vegetative cover.*⁵⁴ State offices must define a minimum distance from all parts of cropland fields to noncrop vegetative cover.
 - *Condition of noncrop vegetative cover.* Minimum standards for the composition and structure of the noncrop vegetative cover must be defined. Examples include minimum plant heights and restrictions on mowing.
 - *Conditions for lakes, ponds, wetlands, and streams.* Minimum conditions, such as buffer widths, must be defined
 - *Crop residue management.* Minimum levels of crop residue must be defined.⁵⁵

According to Wildlife Team officials, the national guidance instructed each NRCS state office to develop wildlife habitat assessment criteria that consisted of questions corresponding to the wildlife resource components in the national guidance. For each component of the national guidance, these officials said these questions were to include specific criteria established by the state offices and were intended to determine if a CSP applicant was meeting these criteria and thus was addressing the wildlife habitat resource concern. In general, the phrasing and number of questions that state offices included in these assessment criteria, as well as the overall design of the assessment criteria, varied. For example, one state office's assessment criteria had nine questions and required a "yes" response to each question. Another state office's assessment criteria included six questions and required a "yes" response to each question.

In reviewing the wildlife habitat assessment criteria that NRCS state offices used in the fiscal year 2005 sign-up, we found that some NRCS state offices used criteria that were inconsistent with the national guidance. For example, the design of the assessment criteria used for cropland in three states made it possible for NRCS to determine that a producer was addressing the wildlife habitat resource concern even though that producer may not have met the state criteria for each of the six resource components

⁵⁴Interspersion refers to the proximity of noncrop vegetative cover to cropland fields.

⁵⁵A measure of the amount of crop residue is the percentage of crop residue from the previous harvest left on the soil surface before and after planting a new crop.

identified in the national guidance. Although these three state offices' wildlife habitat assessment criteria included a question or questions that generally related to each of the national guidance's components, the state offices required "yes" responses to only five of the seven questions listed in the assessment criteria. Thus, in effect, these states did not require producer compliance with all aspects of their state criteria or, by extension, all six components of the national guidance. A Wildlife Team official explained that although NRCS has not undertaken a review to determine whether producers have qualified for Tier III payments under this scenario, based on informal discussions with field office staff, this official concluded that some producers received such payments during the fiscal years 2004 and 2005 sign-ups.⁵⁶ In addition, another Wildlife Team official said it was particularly problematic that a producer could receive a Tier III payment in these states without meeting the state criteria related to the amount of noncrop vegetative cover.⁵⁷ According to this official, this component of the national guidance is particularly important for cropland because it is intensively farmed and generally unsuitable for wildlife habitat. Thus, the creation or preservation of areas of noncrop vegetative cover associated with cropland is critical to providing adequate wildlife habitat.

As a result of these inconsistencies with the national guidance, producers in these states could qualify for Tier III payments even though they might not be providing habitat as intended by the national guidance and might not have qualified for Tier III payments in another state that used criteria that more closely followed the national guidance. In addition, the use of criteria that are inconsistent with the national guidance reduces NRCS's ability to ensure that CSP is achieving its intended wildlife habitat benefits. If producers are not providing the wildlife habitat benefits intended by the national guidance, the environmental benefit achieved per dollar of CSP

⁵⁶We did not conduct file reviews at these NRCS state offices to determine the extent of producers who answered "yes" to only five or six of the seven questions included in the wildlife habitat assessment criteria used by these states.

⁵⁷In addition, the states' criteria for the amount of noncrop vegetative cover are inconsistent with the national guidance. Specifically, the states' criteria require a minimum percentage of noncrop vegetative cover for the "offered operation," meaning the entire farm. However, the national guidance states that a minimum percentage of noncrop vegetative cover for "each cropland field" on an operation must be defined by the states.

spending may be reduced,⁵⁸ and CSP cost control measures would be weakened. Furthermore, some NRCS state officials said such variability in state assessment criteria could lead to pressures for more lenient payment eligibility determinations within their own states. According to these officials, when producers in a state that is conforming to the national wildlife habitat guidance see that other states are using more lenient criteria, they may pressure their NRCS state office to adopt more lenient criteria as well.

NRCS Wildlife Team officials agreed with our assessment that some NRCS state offices used wildlife habitat assessment criteria for the fiscal year 2005 sign-up that were not consistent with the national guidance. In addition, these officials said that NRCS should conduct field tests of states' criteria to ensure that these criteria are consistent with the national guidance and to determine the extent to which Tier III contracts provide adequate wildlife habitat benefits. However, they cited time constraints as the primary reason that states' criteria have not been field tested and they indicated, as of February 2006, that NRCS does not have plans to do this testing. Regarding reasons why some state offices have not developed criteria consistent with the national guidance, these officials noted that some state office officials hold the view that CSP is a working lands program and, therefore, should not place too much emphasis on wildlife habitat or force a producer to take land out of production in order to create the habitat needed to qualify for a Tier III payment. Some of the state officials we contacted corroborated this point. In addition, the Wildlife Team officials noted that some state office officials might not have understood what guidance they were supposed to follow during the fiscal year 2005 sign-up because NRCS's *Conservation Programs Manual*—the principal source of guidance for NRCS field office staff for implementing conservation programs—had no explicit reference to the national guidance. Accordingly, the Wildlife Team officials said they had recommended to NRCS's programs office that a reference to the national

⁵⁸For example, a producer who is not fully providing the wildlife habitat benefits intended by the national guidance could nevertheless be determined by an NRCS state office to be eligible for Tier III payments. Thus, this producer could receive a maximum payment of up to \$45,000. However, if the NRCS state office had strictly applied the national guidance, the producer would have been enrolled in Tier II instead. Under this tier, the producer's maximum payment would be up to \$35,000. In this case, the difference between the Tier III and Tier II payment—up to \$10,000—would free up program funds for other purposes, such as funding the application of another eligible producer who otherwise would not receive program funding.

guidance be included in the manual. They opined that inclusion of this reference would emphasize the importance of the national guidance to the agency's field staff.

Finally, some NRCS state officials also expressed concerns about other inconsistencies among state offices in determining producer eligibility for certain CSP payments. In particular, they cited inconsistencies in states' determinations that producers are sufficiently addressing water quality issues. According to NRCS officials, the agency has been aware of this issue since the fiscal year 2004 sign-up when it relied on state-based standards to determine if CSP applicants were meeting eligibility requirements for water quality concerns. In the 2005 sign-up, to increase consistency, NRCS required its state offices to develop water quality checklists based on national criteria to assess applicant eligibility regarding water quality issues. These checklists were to address all critical water quality concerns, including those related to nutrients, pesticides, and sediment. In the 2006 sign-up, to further increase consistency, NRCS developed a national water quality eligibility "tool" that uses indices and scales to achieve an overall water quality assessment rating for each applicant. Using the tool, NRCS assigns points for an applicant's current conservation activities and the level of water quality protection those activities provide.

Despite Legislative and Regulatory Measures That Lessen Possible Duplication between CSP and Other Programs, the Potential for Duplicate Payments Still Exists, and Such Payments Have Occurred

The farm bill and CSP regulations include various measures that reduce the potential for duplication between CSP and other USDA conservation programs. For example, as authorized in the statute, CSP can reward producers for conservation actions that they have already taken, whereas other programs generally provide assistance to producers to encourage them to take new actions intended to address conservation problems on working lands or to idle or retire environmentally sensitive land from production. In addition, USDA regulations establish higher minimum eligibility standards for CSP than exist for other programs, helping to differentiate the applicant pool for CSP from these programs. However, the possibility remains that producers could receive duplicate payments for the same conservation action from CSP and other programs, and such duplication has occurred. In addition, NRCS does not have a comprehensive process to preclude or identify such duplicate payments.

Farm Bill Provisions Lessen the Potential for Duplication

CSP operates under a number of statutory provisions that distinguish it from other USDA conservation programs and make duplicate payments less likely. Specifically, the farm bill

- explicitly prohibits duplicate payments under CSP and other conservation programs for the same practices on the same land.
- provides incentives to producers, through CSP's Tier III payments, to address all applicable resource concerns on entire agricultural operations (i.e., whole-farm planning).
- provides 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.
- establishes several types of CSP payments—stewardship, existing practice, and enhancement payments—that are unique to CSP and not offered under other programs.⁵⁹

In addition, other farm bill provisions reduce potential duplication by prohibiting certain payments from being made through CSP.⁶⁰ For example, CSP payments cannot be made for

⁵⁹CSP stewardship payments reward producers for conservation actions they have already taken; existing practice payments support the maintenance of existing conservation practices; and enhancement payments encourage conservation actions that generally exceed the minimum or nondegradation standards developed by NRCS for individual conservation practices. The term “nondegradation standard” means the level of measures (actions) required to adequately protect and prevent degradation of one or more natural resources, as determined by NRCS in accordance with the quality criteria described in NRCS handbooks, such as the *National Handbook of Conservation Practices*. According to NRCS's regulations, a conservation practice is a specified treatment, such as a structural or land management practice, that is planned and applied according to NRCS standards and specifications. If a producer's conservation actions exceed the minimum standards for a conservation practice, the producer may qualify for an enhancement payment.

⁶⁰The farm bill also states that NRCS shall, to the maximum extent practicable, eliminate duplication of planning activities under Environmental Quality Incentives Program (EQIP) and comparable conservation programs.

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- construction or maintenance of animal waste storage or treatment facilities or associated waste transport or transfer devices for animal feeding operations.⁶¹
 - conservation activities on lands enrolled in the Conservation Reserve Program, the Wetlands Reserve Program, and the Grassland Reserve Program.

Furthermore, if a producer receives payments under another program—such as a commodity price support program—that are contingent on the producer’s compliance with requirements for the protection of highly erodible land and wetlands, the farm bill only authorizes a CSP payment on that land for practices that exceed those requirements.⁶²

NRCS Regulatory Measures and Procedures Further Distinguish CSP from Other Programs

In addition to farm bill provisions that reduce potential duplication, a number of NRCS regulatory measures and procedures further distinguish CSP from other USDA conservation programs. These include the following:

- NRCS’s CSP regulations and *Conservation Programs Manual* elaborate on statutory provisions that prevent producers from receiving payments under CSP for the same practice on the same land. For example, the manual states that a CSP participant may not receive CSP cost-share funding for new conservation practices that were applied with financial assistance from other USDA conservation programs. In addition, the manual states that a participant may not receive a CSP payment for enhancement activities if the participant is also earning financial

⁶¹In contrast, EQIP cost-share payments for these practices are significant because the farm bill required NRCS to target 60 percent of EQIP funds made available for cost-share and incentive payments at practices related to livestock and poultry production.

⁶²The conservation compliance provisions of the Food Security Act of 1985, as amended, require, as a condition of eligibility for certain federal farm programs, that producers reduce erosion on highly erodible cropland and, with certain exceptions, prohibit the conversion of wetlands to cropland. Specifically, the 1985 act, as amended, requires farmers to do the following: (1) apply conservation systems to highly erodible lands cropped in any year from 1981 through 1985 to substantially reduce soil erosion (the act’s specific “conservation compliance” provision); (2) for highly erodible land not farmed prior to the act’s passage, apply a conservation system before planting and control soil erosion to a greater extent than required under conservation compliance (the act’s “sodbuster” provision); and (3) avoid converting wetlands to cropland (the act’s “swampbuster” provision).

assistance payments through other programs for the same conservation practice or action on the same land during the same year.

- CSP regulations establish higher minimum eligibility standards for CSP than exist for other programs, helping to differentiate the applicant pool for CSP from the potential applicants for other programs. For example, to be eligible for a Tier I CSP contract, a producer must already have addressed water and soil quality to a minimum level of treatment. NRCS encourages producers who do not meet these higher standards to apply for assistance under other programs.
- For the 2005 sign-up, NRCS limited CSP cost-share payments for new conservation practices to 50 percent (65 percent for beginning and limited-resource producers) of implementation costs. NRCS allows cost-share payments of up to 75 percent under the Environmental Quality Incentives Program (EQIP) and the Wildlife Habitat Incentives Program (WHIP).⁶³ Thus, producers have a stronger financial incentive to apply for new conservation practice payments through EQIP or WHIP rather than CSP. In addition, NRCS has limited the number of conservation practices that are eligible for funding through CSP. In any given watershed, CSP payments for new conservation practices were only offered for up to about 20 of the approximately 200 conservation practices that can be funded through EQIP.
- NRCS has encouraged enhancement payments for conservation actions that exceed the minimum treatment standards required for CSP eligibility. According to NRCS officials, emphasizing enhancements helps to differentiate CSP from other programs, such as EQIP and WHIP, which do not offer similar payments. As discussed, EQIP and WHIP payments generally assist producers in achieving a level of treatment that meets the minimum or nondegradation standard for a conservation activity,⁶⁴ as defined by NRCS, which generally is less than the minimum treatment standard for CSP enhancements. Most CSP payments made in fiscal years 2004 and 2005 were for enhancements. In fiscal year 2004, enhancement payments and advance enhancement payments accounted

⁶³EQIP and WHIP are described in appendix IV. Under EQIP, beginning and limited-resource producers may receive cost-share payments of up to 90 percent.

⁶⁴Under EQIP, a producer could receive cost-share payments for conservation practices that exceed the nondegradation standard although this level of management intensity is not required per se.

for about 81 percent of total CSP payments.⁶⁵ In fiscal year 2005, enhancement payments were 81 percent of total CSP payments.

- CSP regulations and procedures also provide financial incentives for enhancements. Specifically, in order to receive a larger payment up to the full total payment allowed under each enrollment tier, a producer must agree to implement enhancements because of the limits on stewardship, existing practice, and new practice payments. Stewardship payments are capped under the farm bill and CSP regulations at \$5,000 for Tier I, \$10,500 for Tier II, and \$13,500 for Tier III.⁶⁶ Furthermore, CSP sign-up notices have limited existing practice payments to a flat rate of 25 percent of the stewardship payment for each tier and have limited new practice payments to \$10,000 for each tier. As a result of these limits, the maximum total payment a producer could receive (i.e., the total of the stewardship, existing practice, and new practice payments) without an enhancement payment would be \$16,250 for Tier I, \$23,125 for Tier II, and \$26,875 for Tier III. Therefore, in order to receive the full amount of CSP financial assistance available for an enrollment tier (e.g., \$20,000 for Tier I; \$35,000 for Tier II; and \$45,000 for Tier III), the producer must agree to implement enhancements. In addition, to encourage participants to add new enhancements over the life of a contract, NRCS incorporated variable enhancement payments into the fiscal year 2005 CSP contracts that gradually reduce the annual payments for a contract's base (initial) enhancements over the contract's term.⁶⁷ Thus, to compensate for this

⁶⁵Fiscal year 2004 CSP payments included \$13.6 million in advance enhancement payments. Excluding advance enhancement payments, total enhancement payments made in fiscal year 2004 were about \$14.1 million, or about 68 percent of total CSP payments made that year.

⁶⁶In addition, under the farm bill, stewardship payments are calculated by formula, taking into account acreage, land rental rates (or other appropriate rates), and a defined percentage that varies by tier. The CSP regulations reduce the stewardship payments by applying a reduction factor that varies by tier (i.e., 25 percent for Tier I, 50 percent for Tier II, and 75 percent for Tier III).

⁶⁷For these contracts, the fiscal year 2005 enhancement payment was 150 percent of the contract's base enhancement value. Annual enhancement payments are scheduled to decline to 90 percent of this base in fiscal year 2006, 70 percent in fiscal year 2007, 50 percent in fiscal year 2008, 30 percent in fiscal year 2009, and 10 percent in fiscal year 2010. In contrast, payments for enhancements added to a fiscal year 2005 contract after that year are not subject to this declining payment schedule.

diminishing income, a producer would need to add new enhancements over the life of a contract.

Potential for Duplication Still Exists and Duplicate Payments Have Occurred

Despite farm bill and NRCS regulatory measures and procedures that lessen possible duplication between CSP and other programs, the potential for duplication still exists and has occurred with regard to CSP enhancement payments. For example, although some payments made through CSP are unique to that program, payments for new conservation practices or actions such as nutrient management can be made through CSP and other programs, creating the potential for duplicate payments. In addition, CSP payments for enhancement actions have the potential to overlap with payments under other programs for conservation practices. Regarding the latter possibility, we found a number of cases where duplicate payments had been made for CSP enhancements and conservation practices under other programs for the same conservation action on the same land during the same year. In addition, NRCS lacks a comprehensive process to identify potential duplicate payments or duplicate payments already made.

Table 6 summarizes the types of conservation payments available through CSP, EQIP, and WHIP.

Table 6: Conservation Payments Available through CSP, EQIP, and WHIP

Payment type	CSP	EQIP	WHIP
Stewardship payment to reward prior conservation actions	X		
Existing practices payment for the cost of maintaining previously implemented conservation practices	X		
Cost-share payment for the adoption of conservation practices that meet nondegradation standards; these conservation practices include land management practices (e.g., nutrient management to reduce water pollution); vegetative practices (e.g., planting native grasses to provide wildlife habitat); and structural practices (e.g., fencing to keep livestock out of streams)	X	X	X
Incentive payment for the adoption of land management conservation practices that meet nondegradation standards (e.g., crop residue management to reduce soil erosion)		X	
Enhancement payment for conservation actions that exceed minimum eligibility standards (e.g., delaying haying and grazing pasture or grassland from April 15 to August 1 to improve habitat for ground-nesting birds that reproduce during this period) ^a	X		

Sources: GAO analysis of CSP, EQIP, and WHIP provisions.

^aThe farm bill states that these enhancement payments are for conservation practices that exceed the minimum requirements for the applicable tier of CSP participation. Under these minimum requirements, the level of conservation treatment must meet nondegradation standards for the applicable resource concerns. In implementing CSP, NRCS has made enhancement payments available for soil, nutrient, wildlife habitat, pest, energy, air, irrigation water, and grazing management, as well as locally identified conservation needs.

As indicated in the table, the farm bill allows cost-share payments for the adoption of conservation practices that could be implemented through any of these programs,⁶⁸ creating the possibility that a producer could receive duplicate payments for the same conservation practice under CSP and another program. In reviewing fiscal year 2004 contracts and payments data for CSP, EQIP, and WHIP, we did not find evidence of duplicate payments related to funding the adoption of the same conservation practice under CSP and another program on the same operation during the same year. However, the opportunity for such duplicate payments to have been made during fiscal year 2004 was very low because only four producers received CSP payments for the adoption of new conservation practices that year. NRCS officials said that, because the fiscal year 2004 contracts were approved in July 2004, the time remaining in the fiscal year was not sufficient for most CSP participants to implement new

⁶⁸These conservation practices must be listed in NRCS's *National Handbook of Conservation Practices*. A conservation practice is a specified treatment that is planned and applied according to NRCS standards and specifications. Practices approved by NRCS are compiled at each conservation district in its field office technical guide. Practices can be structural, such as terraces and animal waste storage facilities, or land management, such as strip cropping, nutrient management, and pest management.

conservation practices and receive a payment. In addition, these officials said NRCS encourages producers to use programs other than CSP to obtain financial assistance for new conservation practices. As discussed, these other programs generally offer a higher cost share for new practices than offered under CSP. In the future, greater numbers of producers may receive CSP payments for new conservation practices, increasing the potential for duplicate payments.

The potential for duplicate payments also exists between CSP enhancement payments and conservation practice payments made under other programs. Each year, NRCS state offices develop lists of conservation actions eligible for CSP enhancement payments in their states. NRCS headquarters officials then review and approve the states' lists. If the reviewing officials find that a proposed enhancement includes conservation actions that do not exceed the minimum standard for the related conservation practice, as defined by NRCS, they work with the NRCS state office to revise the proposed enhancement. However, some overlap may occur because a given conservation action can have a different purpose under another program. For example, several states offer CSP enhancement payments for the use of conservation crop rotation for the purpose of breaking plant pest cycles to reduce the need for pesticide applications. At the same time, these states offer EQIP funding for the use of conservation crop rotation for the purposes of reducing soil erosion, providing wildlife cover and food, and improving soil organic matter. This overlap increases the potential for a producer to receive two payments for the same conservation action on the same land during the same year. The farm bill prohibits payments under CSP and another conservation program for the same practice on the same land. The CSP manual elaborates on this provision, stating that a participant may not receive a CSP payment for enhancement activities if the participant is also earning financial assistance payments through other programs for the same practice or activity on the same land during the same year.⁶⁹

⁶⁹“Activity” means an action other than a conservation practice that is included as a part of a conservation stewardship contract. These actions could include a measure, an incremental movement on a conservation index or scale, or an on-farm demonstration, pilot, or assessment. “Measure” means one or more specific actions that is not a conservation practice but has the effect of alleviating problems or improving the treatment of resources.

Our file reviews and analysis of NRCS payments data for calendar year 2004 showed that duplicate payments have occurred. Specifically, we found cases where a producer received duplicate payments from CSP and EQIP for performing the same conservation action on the same land during the same year. For example, in the course of performing limited file reviews at several NRCS field offices, we found that a producer had received a CSP enhancement payment and an EQIP conservation practice payment for the same conservation action—establishing a small grain cover crop—on the same tract of land during 2004. This producer also was scheduled to receive the same duplicate payments during 2005.⁷⁰

Furthermore, our analysis of 2004 payments data for CSP, EQIP, and WHIP revealed other cases in which a producer received a CSP enhancement payment and an EQIP payment for performing a similar conservation action during the same year. Our analysis of these data showed that 172 (or 8 percent) of the 2,180 producers who received a CSP payment in 2004 also received an EQIP payment that year as well. None of these 2,180 producers received a WHIP payment that year.⁷¹ In analyzing the conservation actions funded for the 172 producers who received both CSP and EQIP payments, we initially identified 72 producers who received payments that appeared to be for similar or related conservation actions and may have been duplicates. Specifically, in aggregate, these producers received a total of 121 payments under each program that were potentially duplicates. We then selected 11 of these producers, who in aggregate received a total of 12

⁷⁰After bringing this situation to the attention of NRCS state office officials, these officials issued further guidance on preventing duplicate payments to their field office staff in October 2005. This guidance states that a producer who has a CSP contract and an EQIP or a WHIP contract with funding for the same conservation action in the same year cannot receive two payments for the same action. According to the guidance, to avoid duplicate payments, the CSP enhancement payment for an activity funded by EQIP or WHIP should not be made until the year following the year in which the last EQIP or WHIP payment for the activity is made.

⁷¹Because EQIP is a much larger program than WHIP in terms of funding and participation, the potential for duplication between EQIP and CSP is greater than the potential for duplication between WHIP and CSP.

payments under each program, for more detailed analysis.⁷² We discussed these 12 cases with NRCS field office officials to determine if any of these payments were made for implementing the same conservation action on the same land. In 6 of the 12 cases, a producer received a CSP enhancement payment and an EQIP payment for conservation actions that appeared to be similar (e.g., CSP and EQIP payments for nutrient management). In the other 6 cases, a producer received a CSP enhancement payment based on an index score that may have increased as a result of a conservation action for which the producer received an EQIP payment.

We discussed the first 6 cases—those in which a producer received a CSP enhancement payment for a conservation action and an EQIP payment for a similar conservation action—with NRCS field office officials. Based on these discussions, we determined that duplicate payments were made in 4 of these 6 cases. For example, in one instance, a producer received a CSP pest management enhancement payment of \$9,160 for a conservation crop rotation. On the same parcel of land, the producer also received an EQIP payment of \$795 for the same conservation action—conservation crop rotation.⁷³ Regarding these 4 cases, in 2 instances, NRCS field office officials acknowledged that duplicate payments had occurred, i.e., that the producer received a CSP enhancement payment and an EQIP conservation practice payment for the same conservation action on the same land during the same year. In these cases, these officials said the duplicate payments resulted from simple error. In the other 2 cases, NRCS field office officials held the view that even though the payments were for the same conservation action, if they were made for different conservation purposes (e.g., a CSP-funded conservation crop rotation to break pest cycles and an EQIP-funded conservation crop rotation to improve soil quality), then they

⁷²We selected these 11 producers from a cross section of states—Nebraska, Oklahoma, Oregon, and South Carolina. In general, these states had the highest number of cases of potential duplication. In each state, we contacted NRCS field office officials in the county with the largest number of cases to discuss whether the payments were duplicates. Our choice of these producers, states, and counties was not intended to be representative for projection purposes.

⁷³NRCS state officials agreed that these payments were duplicates. They stated that they were unaware that such duplication was occurring and that they would inform their district offices of it. In addition, they said that in cases where duplication is found, they would give the producer a choice of either receiving only one payment (and delay payments under the other program to a subsequent year) or, where applicable, eliminating that portion of the payment made under one or the other program for specific acres that are eligible for payments under both programs.

were not duplicates. However, the farm bill clearly prohibits payments under CSP and another conservation program for the same practice on the same land. In addition, NRCS's *Conservation Programs Manual* elaborates on this provision, stating that a participant may not receive a CSP payment for enhancement activities if the participant is also earning financial assistance payments through other programs for the same practice or activity on the same land during the same year. NRCS state office and headquarters officials agreed with our interpretation that in such situations producers should not receive payments under both programs.

We also discussed the other 6 cases—those in which a producer received a CSP enhancement payment based on an index score that may have increased as a result of a conservation action for which the producer received an EQIP payment in the same year—with NRCS field office officials. In 4 of these cases, a producer received a CSP soil management enhancement payment based on a soil conditioning index score while also receiving an EQIP payment for conservation practices that reduce soil erosion. For each of these cases, these officials stated that the EQIP-funded conservation practice had contributed to increasing the soil conditioning index score and, as a result, had increased the CSP enhancement payment. For example, a producer may implement an EQIP-funded soil conservation practice that is factored into the calculation of a soil conditioning index score, increasing the index score from 0.2 to 0.5. If CSP soil management enhancement payments in that producer's state increase by \$1.16 per acre for each 0.1 increase in the soil conditioning index, the producer's enhancement payment would increase by \$3.48 per acre.

The NRCS field office officials we interviewed had mixed views as to whether these payments were duplicates. We believe such payments were, at least in part, duplicates. However, an NRCS headquarters official stated that such payments are not duplicates. According to this official, EQIP payments are intended to compensate producers for "input" costs associated with installing or initiating conservation actions, while CSP enhancement payments are intended to reward producers for conservation "outputs" (i.e., benefits derived from conservation actions). Therefore, the official said, such payments are not duplicates. We do not agree with this rationale. Payments for producer "input" costs under EQIP are made because of their resulting conservation "outputs," and payments for CSP conservation "outputs" are made to compensate producer "input" costs. In other words, the programs are both compensating the same action but are doing so either before or after the fact. To receive payments from both for

the same action would thus clearly be duplication. Moreover, we continue to consider such payments to be inconsistent with both the farm bill prohibition and NRCS's guidance on duplicate payments.

In the other 2 cases related to index scores, the producers received CSP enhancement payments based on a wildlife habitat management index score while also receiving an EQIP payment for conservation practices that may improve wildlife habitat. In one of these cases, the EQIP-funded conservation practice was not taken into consideration in determining the index score because the practice did not affect habitat for the species of concern, bobwhite quail. In the other case, an NRCS field office official stated that, to prevent the payment from being a duplicate, he had not included the EQIP-funded conservation practice in calculating the index score. We agreed that duplicate payments had not occurred in these 2 cases.

NRCS headquarters officials stated the agency lacks a comprehensive process, such as an automated system, to either preclude duplicate payments or identify them after a contract has been awarded. Instead, these officials said that NRCS relies on the institutional knowledge of its field office staff and the records they keep to prevent duplicate payments. Several NRCS state officials noted that the field staff are familiar with the assistance that producers in their county receive under various programs and suggested that these staff would reject a CSP application for a conservation activity already financed through another program. However, reliance on the institutional knowledge of staff can be problematic, especially since NRCS reported in June 2003 that almost 50 percent of its field-level workforce would be eligible to retire in 5 years, representing a serious loss of knowledge, experience, and institutional memory as these employees are replaced with less-experienced, newly hired employees.⁷⁴ In addition, because CSP sign-ups operate under a compressed time schedule, additional staff—who do not have knowledge of local producers' prior and current participation in conservation programs—are often temporarily relocated from other parts of a state to assist in developing CSP contracts. These staff would not be familiar with local producers and their history of conservation program participation.

⁷⁴See *Natural Resources Conservation Service Strategic Plan 2003 Update*, USDA/NRCS, June 2003.

A number of NRCS officials acknowledged the need for a comprehensive process to prevent duplicate payments and said NRCS is considering a modification of CSP contract information stored in the Program Contracts System (ProTracts), NRCS's contract management information system, that would allow the agency to identify potential duplicate payments before CSP contracts are approved. For example, these officials said NRCS is considering a modification to ProTracts that would flag a planned CSP enhancement payment that may duplicate a conservation practice payment made under another program, such as EQIP. However, these officials said such a modification could require adding more detailed information on enhancement payments to ProTracts than currently exists within the system. By the same token, these officials also acknowledged a need to develop a process to efficiently identify duplicate payments—such as those we found—already being made under CSP contracts issued in fiscal years 2004 and 2005. At present, NRCS does not know the extent of these duplicate payments or their aggregate dollar value. Although the total dollar amount of duplicate payments may be relatively small at present, in the future, as the program grows to include more participants, the frequency and total dollar value of duplicate payments could become significant. Furthermore, since CSP and EQIP offer producers multiple-year contracts, these duplicate payments, if undetected, would continue in subsequent years. To the extent that duplicate payments are being made, the effectiveness of CSP and the other programs involved is undermined and, because of limited funding, some CSP enrollment categories or subcategories that otherwise would have been funded may not be funded. As a result, some eligible producers may not receive CSP payments that they otherwise qualify for and would have received in the absence of these erroneous payments.

Finally, NRCS has authority to recover duplicate payments. CSP contracts, by way of reference, include a clause stating that CSP participants cannot receive duplicate payments. Under a CSP contract, as required in the farm bill, a producer agrees that on violation of any term or condition of the contract the producer will refund payments and forfeit all rights to receive payments or to refund or accept adjustments to payments, depending on whether the Secretary of Agriculture determines that termination of the contract is or is not warranted, respectively.

Conclusions

Despite farm bill provisions and NRCS actions to control CSP costs, inconsistencies in the wildlife habitat assessment criteria used by NRCS state offices for determining producer payments in the highest CSP

payment category may undermine these cost controls. Specifically, some state offices have used criteria less stringent than those outlined in the NRCS national guidance, potentially resulting in Tier III payments to producers who are not providing the wildlife habitat benefits intended by the national criteria. Based on NRCS officials' observations and the weaknesses we found in some state offices' criteria, we believe it is highly likely that such payments have occurred. Currently, NRCS does not systematically review and field check its state offices' criteria so that inconsistencies with the national guidance can be detected and the agency can determine whether Tier III contracts are providing the wildlife habitat benefits intended. Furthermore, because there is no reference to the national guidance in NRCS's *Conservation Programs Manual*, some NRCS state and field offices may not know what wildlife habitat assessment criteria to follow or may fail to appreciate the importance of the national guidance.

In addition, despite farm bill provisions and NRCS regulations and procedures designed to prevent CSP from duplicating payments made by other conservation programs, the potential for duplication still exists, and duplicate payments for the same practice or activity on the same land have occurred. Duplicate payments reduce the effectiveness of the programs involved and, because of limited funding, may result in some producers not receiving program benefits for which they are otherwise eligible. For these reasons, NRCS also should use its authority to recover duplicate payments already made. At present, NRCS lacks a comprehensive process, such as an automated system, to identify payments that are potential duplicates before they are made. The agency also lacks an effective way to identify duplicate payments already made under existing CSP contracts.

Without question, NRCS's challenge in implementing CSP—a new, unique, and complex conservation program—has been formidable. However, we believe that factors such as the substantial increase in conservation funding authorized by the 2002 farm bill; the extent of agriculture's continuing contribution to impaired soil, water, air, and wildlife habitat; and the importance of farmers and ranchers as stewards of the nation's natural resources underscore the need for NRCS to manage CSP in a way that ensures consistent program implementation nationwide, achieves intended environmental benefits, and prevents duplicate payments.

Recommendations for Executive Action

To improve NRCS's implementation of the Conservation Security Program, we recommend that the Secretary of Agriculture direct the Chief of NRCS to take the following four actions:

- Review and field check each NRCS state office's wildlife habitat assessment criteria to ensure that states use consistent criteria and achieve the habitat benefits intended by the national guidance;
- Include a reference to the national guidance for wildlife habitat assessment criteria in NRCS's *Conservation Programs Manual*;
- Develop a comprehensive process, such as an automated system, to review CSP contract applications to ensure that CSP payments, if awarded, would not duplicate payments made by other USDA conservation programs; and
- Develop a process to efficiently review 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.

Agency Comments and Our Evaluation

We provided a draft of this report to NRCS for review and comment. We received written comments from NRCS's Chief, which are reprinted in appendix VIII. Among other things, NRCS stated that our report provides valuable information that will help NRCS to improve implementation of CSP. NRCS also provided us with suggested technical corrections, which we have incorporated into this report, as appropriate.

NRCS generally agreed with our findings and recommendations and discussed the actions that it has taken, is taking, or plans to take to address our recommendations. Regarding our first two recommendations, while acknowledging that problems exist, NRCS indicated that it recently has taken or is considering corrective actions other than those suggested in our recommendations. For example, because some NRCS state offices have not fully adhered to the agency's national guidance for wildlife habitat assessment criteria, NRCS said that it issued a national bulletin to all of its state offices during the fiscal year 2006 CSP sign-up to reemphasize the guidance that these offices must use in developing their wildlife habitat assessment criteria. However, while the promulgation of this bulletin

should be helpful, we still believe that NRCS should review and field check each state office's assessment criteria to ensure its adherence to the national guidance. In the second case, in lieu of including a reference in its *Conservation Programs Manual*, NRCS said that it is proposing that NRCS wildlife biologists develop a special technical note that would describe how the national guidance for wildlife habitat assessment criteria should be used by NRCS state offices. Again, while we support this step, we still believe that the inclusion of a reference in the *Conservation Programs Manual* to the national guidance would help to emphasize its importance to NRCS state and field-level employees.

Regarding our third recommendation, NRCS indicated that other automation features will be developed and incorporated into NRCS's contracting software to avoid duplicate payments. In the meantime, NRCS said that it had implemented other procedures to help eliminate the occurrence of duplicate payments. For example, for the fiscal year 2006 sign-up, NRCS is requiring applicants to complete a form that asks an applicant to certify whether or not they are receiving payments from another conservation program on any of the land being offered for enrollment in CSP. In addition, NRCS said it plans to revise the CSP contract appendix to include a statement about prohibitions on duplicative payments. Regarding our fourth recommendation, NRCS said that it has improved management oversight to cross-check payments made to CSP participants and participants under other conservation programs to determine if duplicative payments have been made. If duplicative payments have been made, NRCS said it has contracting procedures that can be utilized to recover the payments.

We also provided a draft of this report to CBO and OMB for review and comment. These agencies provided us with suggested technical corrections, which we incorporated into the report, as appropriate.

We are sending copies of this report to interested congressional committees; the Secretary of Agriculture; the Director, CBO; the Director, OMB; and other interested parties. We also will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-3841 or robinsonr@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix IX.

Sincerely yours,

A handwritten signature in black ink that reads "Robert A. Robinson". The signature is written in a cursive style with a large, stylized initial "R".

Robert A. Robinson
Managing Director, Natural Resources
and Environment

Objectives, Scope, and Methodology

At the request of the Chairman, Senate Committee on Appropriations, we reviewed issues related to the U.S. Department of Agriculture's (USDA) implementation of the Conservation Security Program (CSP). Specifically, we determined (1) why Congressional Budget Office (CBO) and Office of Management and Budget (OMB) cost estimates for CSP generally increased over time; (2) what authority USDA has to control CSP costs and what cost control measures are in place; and (3) what legislative and regulatory measures exist to prevent duplication between CSP and other USDA conservation programs, and what duplication, if any, has occurred.

To determine why CSP cost estimates have increased, we interviewed CBO and OMB officials and reviewed documentation they provided. At each agency, we spoke with budget analysts about their agency's estimating practices, including the types of data, assumptions, and models used to prepare cost estimates. We did not attempt to re-estimate or audit the CBO or OMB estimates or data discussed in this report. For comparison purposes, we also interviewed USDA officials, including Natural Resources Conservation Service (NRCS) and Economic Research Service officials, and reviewed documentation they provided related to NRCS's benefit-cost assessments of CSP. NRCS prepared these assessments in conjunction with its issuance of interim final and amended interim final rules for the program, published in the *Federal Register* in June 2004 and March 2005, respectively. In addition, we interviewed officials at the Congressional Research Service (CRS) and reviewed documentation they provided, including CRS reports that discuss CSP cost and implementation issues.

We also sought the views of other interested stakeholder organizations, such as farm, conservation, and environmental organizations, as to why the estimated costs of CSP have risen substantially. These organizations included the American Farm Bureau Federation, the National Association of Conservation Districts, the Soil and Water Conservation Society, the Sustainable Agriculture Coalition, the Theodore Roosevelt Conservation Partnership, the Wildlife Management Institute, Ducks Unlimited, and Environmental Defense. At each organization, we interviewed knowledgeable officials and reviewed documentation they provided.

To determine USDA's authority to control CSP costs and the cost control measures in place, we reviewed relevant authorizing and appropriations legislation and related legislative history. This legislation includes the Farm Security and Rural Investment Act of 2002 (the farm bill);¹ USDA appropriations acts for fiscal years 2004, 2005, and 2006;² and other legislation that capped CSP funding for the 11-year period, fiscal years 2003 through 2013,³ and for the 10-year period, fiscal years 2005 through 2014.⁴ In addition, we interviewed USDA officials and reviewed documentation they provided at NRCS, the Economic Research Service, the Office of the General Counsel, and the Office of Budget and Program Analysis. We also reviewed USDA's budget explanatory notes for fiscal years 2004 through 2007; NRCS's CSP regulations and associated public comments and benefit-cost assessments; and NRCS's *Conservation Programs Manual* and related guidance pertaining to CSP implementation. Furthermore, we interviewed officials and reviewed documentation they provided at farm, conservation, and environmental organizations and at CRS.

Concerning cost control measures, we also examined NRCS internal management controls (internal controls) related to ensuring that CSP cost control measures are properly and consistently implemented and that CSP contract payments are accurately determined and tracked.⁵ In particular, we focused on controls related to the agency's (1) verification of producer-reported data used to determine program eligibility and payment levels; (2) monitoring of producer implementation of CSP contract provisions; and (3) oversight of program implementation by its field offices, including oversight of the offices' compliance with legislative and regulatory program provisions. To do this, we interviewed NRCS officials and reviewed documentation they provided at the Operations Management and Oversight Division of the Office of Strategic Planning and Accountability. This

¹Pub. L. No. 107-171, 116 Stat. 134 (2002).

²Pub. L. No. 108-199, 118 Stat. 3 (2004); Pub. L. No. 108-447, 118 Stat. 2809 (2004); Pub. L. No. 109-97, 119 Stat. 2155 (2005).

³Pub. L. No. 108-7, 117 Stat. 11 (2003).

⁴Pub. L. No. 108-324, 118 Stat. 1220 (2004).

⁵Internal controls include (1) control goals and objectives; (2) control procedures used to provide reasonable assurance that goals and objectives are met, resources are adequately safeguarded and efficiently used, reliable data are obtained, maintained, and fairly discussed in agency reports, and laws and regulations are complied with; (3) financial accounting systems; and (4) management monitoring systems.

documentation included NRCS's *General Manual* and *Conservation Programs Manual*. It also included an internal draft study prepared by the division's Oversight and Evaluation Staff regarding CSP's implementation. Among other things, this draft study discusses internal controls related to the program's application process, payment tier designation criteria, and award of contracts across tiers and designated watersheds. In addition, we reviewed USDA's *Management Control Manual* and Management Accountability and Control Regulation. Furthermore, we reviewed, from USDA, relevant Office of Inspector General reports and the fiscal year 2005 performance and accountability report; and, from NRCS, the strategic plan for fiscal years 2003 through 2008; the fiscal year 2003 performance plan;⁶ performance reports for fiscal years 2003 and 2004; the fiscal year 2004 accomplishments report; and business plans for fiscal years 2004 and 2005.

Finally, concerning cost controls and related internal controls, we conducted structured interviews with the relevant NRCS official(s)—usually the CSP program manager or Assistant State Conservationist in a given NRCS state office—who had primary responsibility for implementing CSP in each of the 18 priority watersheds included in the fiscal year 2004 sign-up.⁷ These 18 watersheds also were among the 220 watersheds included in the fiscal year 2005 sign-up. For these interviews, we first developed and pretested a data-collection instrument to guide the interviews.⁸ In developing the instrument, we met with officials in NRCS headquarters and reviewed documentation they provided to gain a thorough understanding of CSP implementation issues and related internal controls. To pretest the instrument, we contacted NRCS officials in Indiana and Pennsylvania who were involved in the fiscal year 2004 sign-up. After conducting the pretest, we interviewed the respondents to ensure that (1) the questions were clear and unambiguous, (2) the terms we used were

⁶NRCS did not prepare annual performance plans for fiscal years 2004 through 2006. According to an NRCS official, in an effort to integrate planning and budgeting, the agency stopped publishing annual performance plans after fiscal year 2003 and began using a working performance budget. This performance budget, also called the budget explanatory notes or "greensheets," is part of NRCS's budget request and is modified based on the appropriations received by the agency.

⁷A structured interview is one in which the questions to be asked, their sequence, and the detailed information to be gathered are all predetermined. This technique is useful where maximum consistency across interviews and interviewees is needed to facilitate analysis and develop meaningful summary information.

⁸A data-collection instrument is a highly structured document that requires the user or respondent to collect or provide data in a systematic and highly precise fashion.

precise, (3) the questions asked were independent and unbiased, and (4) answering the questions did not place an undue burden on the agency officials interviewed. On the basis of feedback from the pretests, we modified the questions as appropriate. We then conducted the structured interview by phone with NRCS officials representing each of the 18 watersheds. Table 7 lists the 18 watersheds included in the fiscal year 2004 sign-up, the lead NRCS state office for each watershed, and the number of CSP contracts awarded in each watershed.

Table 7: Priority Watersheds, Lead NRCS State Offices, and CSP Contracts Awarded in the Fiscal Year 2004 CSP Sign-up

Priority watershed	Lead NRCS state office	CSP contracts awarded
Auglaize	Ohio	189
Blue Earth	Minnesota	280
East Nishnabotna	Iowa	145
Hondo	Texas	16
Kishwaukee	Illinois	191
Lemhi	Idaho	18
Little	Georgia	37
Little River Ditches	Missouri	189
Lower Chippewa	Wisconsin	207
Lower Little Blue	Kansas	143
Lower Salt Fork Arkansas	Oklahoma	176
Lower Yellowstone	Montana	49
Moses Coulee	Washington	43
Punta de Agua	New Mexico	19
Raystown	Pennsylvania	36
Saluda	South Carolina	76
St. Joseph	Indiana	217
Umatilla	Oregon	149
Total		2,180

Source: GAO analysis of NRCS data (as of July 27, 2005).

We did not conduct structured interviews with officials representing the lead offices for all 220 priority watersheds included in the fiscal year 2005 sign-up because (1) time frames for completing this sign-up and awarding contracts fell beyond the time frames for completing this portion of our work and (2) the 18 watersheds covered by our interviews were included in

both the fiscal year 2004 and fiscal year 2005 sign-ups and provided wide geographic coverage.

To determine what legislative and regulatory measures exist to prevent duplication between CSP and other programs and what duplication, if any, has occurred, we reviewed relevant authorizing legislation and program regulations and interviewed USDA officials and reviewed documentation they provided at NRCS, the Economic Research Service, the Office of the General Counsel, and the Office of the Inspector General. We also included questions in our structured interviews regarding potential duplication between CSP and other programs. In addition, we interviewed NRCS officials responsible for developing a plan to coordinate USDA's land retirement and agricultural working land conservation programs to achieve the goals of (1) eliminating redundancy, (2) streamlining program delivery, and (3) improving services provided to agricultural producers. As required in the farm bill, USDA was to have submitted a report by December 31, 2005, to the Senate Committee on Agriculture, Nutrition, and Forestry and the House Committee on Agriculture that describes this plan and the means by which USDA will achieve these goals. As of March 2006, USDA was still preparing this report (USDA officials indicated that the plan and report will be one-in-the-same document).

Furthermore, to identify potential duplication, we visited and conducted file reviews at NRCS field offices in two of the watersheds—Lower Chippewa and St. Joseph—that were included in the fiscal year 2004 and fiscal year 2005 sign-ups. We selected these watersheds based on several factors, including (1) their similarity to most of the other 18 watersheds included in both sign-ups in terms of the predominant type of land use (i.e., cropland), (2) the relatively high number of financial assistance contracts provided to producers in these watersheds under CSP and other USDA conservation programs, and (3) the availability of NRCS field staff to meet with us at the time. In addition, our selection of watersheds reflected a wide variation in the percent of total payments made to producers in each watershed under Tier III, the highest CSP payment category—41 percent in Lower Chippewa versus 75 percent in St. Joseph. Finally, the Lower Chippewa watershed lies entirely within the state of Wisconsin; in contrast, the St. Joseph watershed straddles three states—Indiana, Michigan, and Ohio—and thus multiple NRCS state offices were involved in implementing CSP in this watershed (Indiana was the lead office). In each watershed, we visited two NRCS county offices to review the contract files of producers who received a CSP payment in fiscal 2004 and an Environmental Quality Incentives Program (EQIP) payment or a Wildlife Habitat Incentives

Program (WHIP) payment in one or more years during fiscal years 2002 through 2004.⁹ We chose the offices visited because they had made relatively large numbers of payments under these programs.

We also obtained and analyzed data from NRCS's Program Contracts System (ProTracts) electronic database regarding calendar year 2004 payments made under CSP and two other USDA conservation programs—EQIP and WHIP. In particular, we compared payment information for CSP and EQIP to identify producers who received payments under both programs that year. We then did further analysis to determine cases in which it appeared a producer had received payments under both programs for the same conservation practice or activity, on the same land, in the same year. We discussed payments received by 11 producers with NRCS officials to determine the actual extent of duplication, if any. We selected these 11 producers from a cross section of states—Nebraska, Oklahoma, Oregon, and South Carolina. In general, these states had the highest number of cases of potential duplication. In each state, we contacted NRCS field office officials in the county with the largest number of cases to discuss whether the payments were duplicates. Our choice of these producers, states, and counties was not intended to be representative for projection purposes. Finally, we interviewed officials and reviewed documentation they provided at farm, conservation, and environmental organizations, CRS, the U.S. Fish and Wildlife Service in the Department of the Interior, and the U.S. Environmental Protection Agency; conducted a literature search to identify relevant studies and articles; and attended a CSP training workshop at USDA headquarters.

We conducted our review between February 2005 and February 2006 in accordance with generally accepted government auditing standards. We conducted a data reliability assessment of the fiscal years 2004 and 2005 payments data for CSP, EQIP, and WHIP and determined the data to be sufficiently reliable. For the data obtained from the other sources noted above, we did not independently verify the data, but we discussed with these sources, as appropriate, the measures they take to ensure the accuracy of these data. For the purposes for which the data were used in this report, these measures seemed reasonable.

⁹Like CSP, EQIP and WHIP are working lands programs, in contrast to other USDA conservation programs that seek to idle or retire working lands from production.

CSP Payments Information for Fiscal Years 2004 and 2005

Tables 8 through 14 summarize Conservation Security Program (CSP) payments information for fiscal year 2004. Tables 15 through 18 summarize similar information for fiscal year 2005, including payments for new and existing (2004) contracts. Table 19 summarizes information on the acres enrolled in CSP by land type during these fiscal years. Although the farm bill called for the establishment of CSP in fiscal year 2003, the Natural Resources Conservation Service (NRCS) held the first program sign-up in fiscal year 2004, after developing program regulations, training its field staff, and introducing the program to producers and stakeholder groups. Information on CSP payments for fiscal year 2006 was not available at the time of our review.

To develop tables 8 through 18, we used payments information from NRCS's Program Contracts System (ProTracts). Among other things, ProTracts is used to manage and monitor the CSP application, contracting, and payment process. ProTracts is a feeder system into the U.S. Department of Agriculture's (USDA) Foundation Financial Information System (Foundation System), the department's official accounting system for making payments for current and prior year programs. The Foundation System records obligations and payments made and is the source of data used in financial statements for all USDA programs. In general, the payments data in the Foundation System is considered official, whereas payments data in ProTracts is considered preliminary until it has been checked, corrected, and migrated to the Foundation System.¹ For this reason, payments data taken from these systems may not be consistent. However, in order to separate CSP payments data by tier, payment type, and enhancement type, it was necessary to use data from ProTracts; this level of detail or disaggregation was not possible using data from the Foundation System.

¹USDA's fiscal year 2005 performance and accountability report discusses material weaknesses related to USDA's financial and accounting systems. Among the weaknesses identified are NRCS's application controls for ProTracts. To address this weakness, NRCS plans to take a number of actions such as establishing a schedule for the systematic reconciliation of appropriations, obligations, and payments data in ProTracts with amounts recorded in the Foundation System.

Appendix II
CSP Payments Information for Fiscal Years
2004 and 2005

Table 8: Total CSP Payments and Contracts by Tier, Fiscal Year 2004

Tier	Payments	Percentage of total payments	Contracts	Percentage of total number of contracts	Average payment
I	\$5,696,212	17%	785	36%	\$7,256
II	16,738,736	49	886	41	18,892
III	11,022,446	35	509	23	23,620
Total	\$34,457,394^a	100%	2,180	100%	\$15,806

Source: GAO analysis of NRCS ProTracts data (as of July 27, 2005).

Note: The percentages may not total 100 due to rounding.

^aOur analysis of NRCS ProTracts data indicates that total CSP payments in fiscal year 2004 were \$34,457,394 (or \$34.5 million), as reflected in the table. However, according to an NRCS official, more recent data in USDA's Foundation Financial Information System indicates that these total payments were \$34,556,220 (or \$34.6 million).

Table 9: Total CSP Payments by Payment Type, Fiscal Year 2004

Payment type	Payments	Percentage of total payments
Stewardship	\$5,401,915	16%
Existing practice	1,355,826	4
New practice	5,148	<1
Enhancement	14,082,782	41
Advance enhancement payment ^a	13,611,724	40
Total	\$34,457,394	100%

Source: GAO analysis of NRCS ProTracts data (as of July 27, 2005).

Note: The percentages do not total 100 due to rounding.

^aFiscal year 2004 payments included advance enhancement payments. These payments were to be limited to \$10,000 per contract. For a producer who received an advance enhancement payment, NRCS will make deductions from subsequent payments over the remaining years of the producer's contract such that the total advance payment would be offset. For example, for a producer whose contract has 9 remaining years, NRCS would deduct one-ninth of the advance enhancement payment in each of these years. NRCS officials explained that for the fiscal year 2004 CSP sign-up, NRCS, using its borrowing authority, obtained the maximum amount of funding available, or \$41.443 million. However, because of lower than anticipated producer participation in CSP that year, NRCS did not need all of this money to make annual contract payments to producers. NRCS decided to use the remaining amounts—about \$13.6 million—to make a one-time advance enhancement payment to most (2,070 of 2,180) of the producers enrolled in CSP that year.

Appendix II
CSP Payments Information for Fiscal Years
2004 and 2005

Table 10: Total CSP Enhancement Payments by Enhancement Type, Fiscal Year 2004

Enhancement type	Payments	Percentage of total enhancement payments
Air resource management	\$216,545	2%
Energy management	712,384	5
Grazing management	344,716	2
Habitat management	953,736	7
Nutrient management	3,506,663	25
Pest management	3,680,118	26
Soil management	4,349,110	31
Water management	319,508	2
Total	\$14,082,782	100%

Source: GAO analysis of NRCS ProTracts data (as of July 27, 2005).

Note: The information in this table excludes advance enhancement payments made in fiscal year 2004.

Appendix II
CSP Payments Information for Fiscal Years
2004 and 2005

Table 11: Distribution of All CSP Contracts by Payment Range (Excluding and Including Advance Enhancement Payments in Contract Amounts), Fiscal Year 2004

Payment	Number of contracts (amounts exclude advance enhancement payments)	Percentage of all contracts (amounts exclude advance enhancement payments)	Number of contracts (amounts include advance enhancement payments)	Percentage of all contracts (amounts include advance enhancement payments)
\$1-\$5,000	1,043	48%	763	35%
\$5,001-\$10,000	394	18	375	17
\$10,001-\$15,000	232	11	233	11
\$15,001-\$20,000	138	6	136	6
\$20,001-\$25,000	143	7	173	8
\$25,001-\$30,000	104	5	75	3
\$30,001-\$35,000	40	2	78	4
\$35,001-\$40,000	86	4	56	3
\$40,001-\$45,000	0	0	140	6
\$45,001-\$50,000	0	0	58	3
\$50,001-\$55,000	0	0	4	<1
\$55,001-\$60,000	0	0	23	1
\$60,001-\$65,000	0	0	66	3
Total	2,180	100%	2,180	100%

Source: GAO analysis of NRCS ProTracts data (as of July 27, 2005).

Note: The percentages may not total 100 due to rounding.

Appendix II
CSP Payments Information for Fiscal Years
2004 and 2005

Table 12: Distribution of Tier I CSP Contracts by Payment Range (Excluding and Including Advance Enhancement Payments in Contract Amounts), Fiscal Year 2004

Payment	Number of contracts (amounts exclude advance enhancement payments)	Percentage of Tier I contracts (amounts exclude advance enhancement payments)	Number of contracts (amounts include advance enhancement payments)	Percentage of Tier I contracts (amounts include advance enhancement payments)
\$1-\$5,000	546	70%	428	55%
\$5,001-\$10,000	133	17	141	18
\$10,001-\$15,000	104	13	78	10
\$15,001-\$20,000	1	<1	43	5
\$20,001-\$25,000	1 ^a	<1	94	12
\$25,001-\$30,000	0	0	1	<1
Total	785	100%	785	100%

Source: GAO analysis of NRCS ProTracts data (as of July 27, 2005).

^aThis contract payment was \$21,427, which exceeds the statutory payment limit of \$20,000 for a Tier I contract.

Table 13: Distribution of Tier II CSP Contracts by Payment Range (Excluding and Including Advance Enhancement Payments in Contract Amounts), Fiscal Year 2004

Payment	Number of contracts (amounts exclude advance enhancement payments)	Percentage of Tier II contracts (amounts exclude advance enhancement payments)	Number of contracts (amounts include advance enhancement payments)	Percentage of Tier II contracts (amounts include advance enhancement payments)
\$1-\$5,000	337	38%	220	25%
\$5,001-\$10,000	160	18	159	18
\$10,001-\$15,000	81	9	97	11
\$15,001-\$20,000	90	10	57	6
\$20,001-\$25,000	113	13	45	5
\$25,001-\$30,000	83	9	42	5
\$30,001-\$35,000	22	2	57	6
\$35,001-\$40,000	0	0	35	4
\$40,001-\$45,000	0	0	128	14
\$45,001-\$50,000	0	0	46	5
Total	886	100%	886	100%

Source: GAO analysis of NRCS ProTracts data (as of July 27, 2005).

Note: The percentages do not total 100 due to rounding.

**Appendix II
CSP Payments Information for Fiscal Years
2004 and 2005**

Table 14: Distribution of Tier III CSP Contracts by Payment Range (Excluding and Including Advance Enhancement Payments in Contract Amounts), Fiscal Year 2004

Payment	Number of contracts (amounts exclude advance enhancement payments)	Percentage of Tier III contracts (amounts exclude advance enhancement payments)	Number of contracts (amounts include advance enhancement payments)	Percentage of Tier III contracts (amounts include advance enhancement payments)
\$1-\$5,000	160	31%	115	23%
\$5,001-\$10,000	101	20	75	15
\$10,001-\$15,000	47	9	58	11
\$15,001-\$20,000	47	9	36	7
\$20,001-\$25,000	29	6	34	7
\$25,001-\$30,000	21	4	32	6
\$30,001-\$35,000	18	4	21	4
\$35,001-\$40,000	86	17	21	4
\$40,001-\$45,000	0	0	12	2
\$45,001-\$50,000	0	0	12	2
\$50,001-\$55,000	0	0	4	1
\$55,001-\$60,000	0	0	23	5
\$60,001-\$65,000	0	0	66	13
Total	509	100%	509	100%

Source: GAO analysis of NRCS ProTracts data (as of July 27, 2005).

Table 15: Total CSP Payments and Contracts by Tier, Fiscal Year 2005

Tier	Payments	Percentage of total payments	Contracts	Percentage of total number of contracts	Average payment
I	\$49,407,374	28%	7,294	49%	\$6,774
II	67,268,160	38	4,530	30	14,849
III	60,708,854	34	3,059	21	19,846
Total	\$177,384,387^a	100%	14,883	100%	\$11,919

Source: GAO analysis of NRCS ProTracts data (as of October 1, 2005).

Note: The information in this table is based on contracts approved for fiscal years 2004 and 2005. Specifically, the information includes the payments made in the second year of the fiscal year 2004 contracts and the first year of the fiscal year 2005 contracts.

^aOur analysis of NRCS ProTracts data indicates that total CSP payments in fiscal year 2005 were \$177,384,387 (or \$177.4 million), as reflected in the table. However, according to an NRCS official, more recent data in USDA's Foundation Financial Information System indicates that these total payments were \$171,388,723 (or \$171.4 million).

Appendix II
CSP Payments Information for Fiscal Years
2004 and 2005

Table 16: Total CSP Payments by Payment Type, Fiscal Year 2005

Payment type	Payments	Percentage of total payments
Stewardship	\$27,428,071	15%
Existing practice	6,864,218	4
New practice	119,777	<1
Enhancement	142,972,322	81
Total	\$177,384,387	100%

Source: GAO analysis of NRCS ProTracts data (as of October 1, 2005).

Notes: (1) The information in this table is based on contracts approved in fiscal years 2004 and 2005. Specifically, the information includes the payments made in the second year of the fiscal year 2004 contracts and the first year of the fiscal year 2005 contracts. (2) NRCS did not make any advance enhancement payments in fiscal year 2005. (3) The percentages do not total 100 due to rounding.

Table 17: Total CSP Enhancement Payments by Enhancement Type, Fiscal Year 2005

Enhancement type	Payments	Percentage of total enhancement payments
Air resource management	\$4,767,408	3%
Drainage management	965,890	1
Energy management	6,259,355	4
Grazing management	4,552,552	3
Habitat management	11,186,833	8
Nutrient management	27,239,832	19
Pest management	32,400,211	23
Salinity management	2,067	<1
Soil management	50,025,411	35
Water management	5,572,763	4
Total	\$142,972,322	100%

Source: GAO analysis of NRCS ProTracts data (as of October 1, 2005).

Notes: (1) The information in this table is based on contracts approved in fiscal years 2004 and 2005. Specifically, the information includes the payments made in the second year of the fiscal year 2004 contracts and the first year of the fiscal year 2005 contracts. (2) The percentages do not total 100 due to rounding.

Appendix II
CSP Payments Information for Fiscal Years
2004 and 2005

Table 18: Distribution of CSP Contracts by Payment Range, Fiscal Year 2005

Payment	Number of contracts	Percentage of total contracts
\$1-\$5,000	5,423	36%
\$5,001-\$10,000	2,738	18
\$10,001-\$15,000	2,504	17
\$15,001-\$20,000	1,162	8
\$20,001-\$25,000	724	5
\$25,001-\$30,000	998	7
\$30,001-\$35,000	630	4
\$35,001-\$40,000	284	2
\$40,001-\$45,000	420 ^a	3
Total	14,883	100%

Source: GAO analysis of NRCS ProTracts data (as of October 1, 2005).

Note: The information in this table is based on contracts approved in fiscal years 2004 and 2005. Specifically, the information includes the payments made in the second year of the fiscal year 2004 contracts and the first year of the fiscal year 2005 contracts.

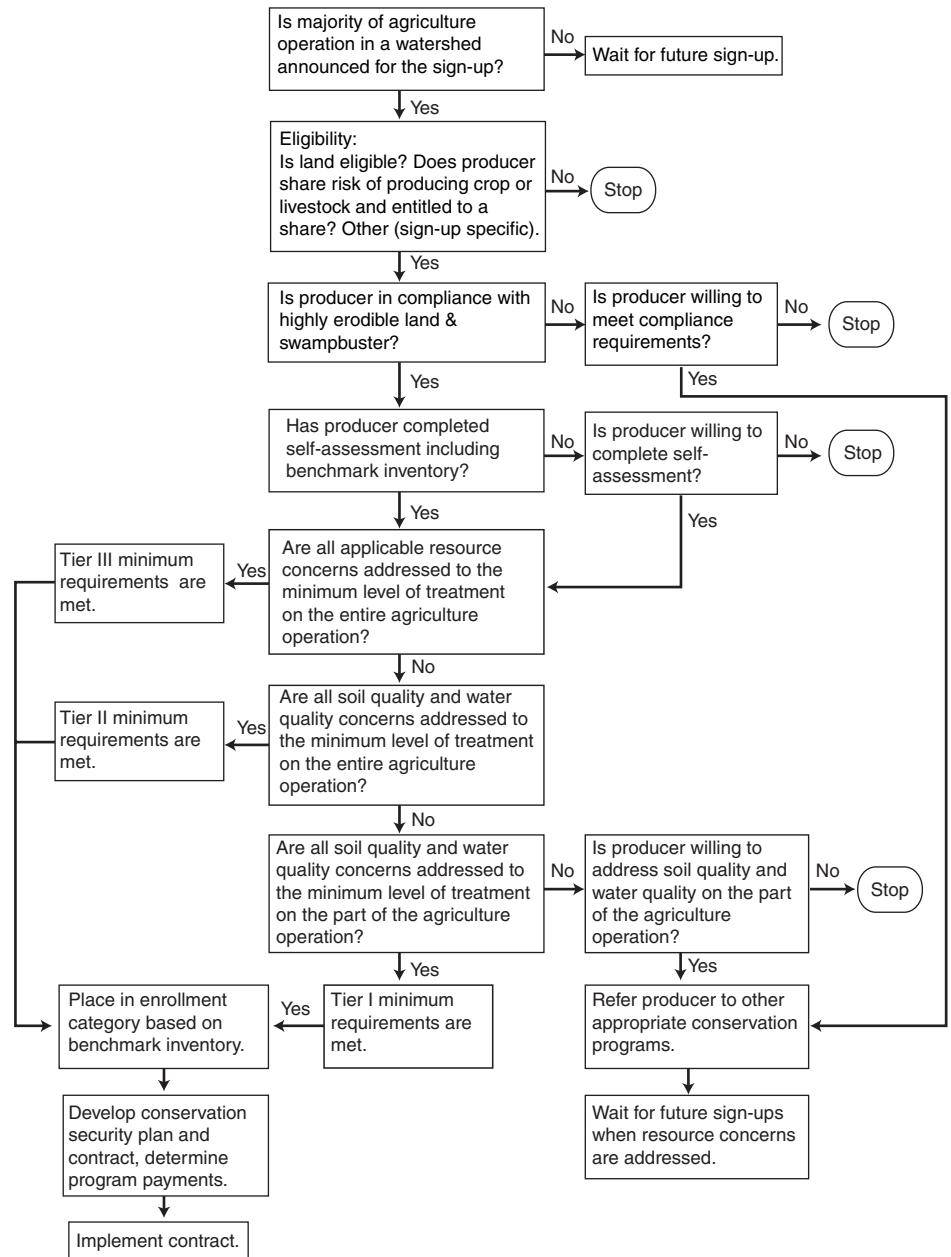
^aThis total includes one contract payment that exceeded \$45,000 (\$45,228).

Table 19: Acres Enrolled in CSP by Land Type, Fiscal Years 2004 and 2005

Fiscal year	Cropland	Irrigated cropland	Pasture	Range	Other	Total
2004	1,083,055	189,682	30,443	577,004	8,227	1,888,411
2005	4,805,342	1,483,755	107,257	2,639,641	0	9,035,995
Total	5,888,397	1,673,437	137,700	3,216,645	8,227	10,924,406

Source: NRCS.

CSP Application and Enrollment Process Flowchart



Source: NRCS.

Other Key USDA Conservation Programs

In addition to the Conservation Security Program (CSP), the U.S. Department of Agriculture (USDA) manages a number of other conservation programs. In general, these other programs (1) help farmers and ranchers address existing environmental problems by paying for a portion of the cost of needed conservation practices or structures; (2) keep land in farming or grazing by purchasing rights to part of the land, such as development rights through easements; or (3) idle or retire environmentally sensitive land, such as highly erodible land or wetlands, from production. In contrast, CSP is focused on operations that already have addressed environmental problems and have achieved a high level of environmental stewardship, while keeping the land in production. Producers cannot receive CSP payments and payments under another USDA conservation program for the same conservation practices or activities on the same land. However, producers can use assistance received under other USDA programs, as well as assistance received under state or private conservation programs, to arrive at a high level of stewardship necessary to participate in CSP. Table 20 describes other key USDA conservation programs.

**Appendix IV
Other Key USDA Conservation Programs**

Table 20: Description of Other Key USDA Conservation Programs

Dollars in millions

Program	Description	Total authorization, fiscal years 2002 through 2007
Conservation Reserve Program	Provides annual rental payments and cost-share and technical assistance to establish permanent vegetative land cover in exchange for taking environmentally sensitive cropland out of production for 10 to 15 years. Most program lands are enrolled through the use of contracts and competitive bidding during designated sign-ups. Some economic uses of enrolled land are allowed with a reduction of annual rental payments, such as the installation of wind turbines and managed haying and grazing. Up to 39.2 million acres may be enrolled at any one time.	\$11,118
Environmental Quality Incentives Program	Offers incentive and cost-share payments and technical assistance through 1- to 10-year contracts to implement structural and land management practices or to develop a comprehensive nutrient management plan. At least 60 percent of annual funds made available for cost-share and incentive payments are required to be targeted at practices relating to livestock production.	5,800
Wetlands Reserve Program	Targets restoration of prior-converted and farmed wetlands to a wetland condition. Acreage can be enrolled in the program through the use of permanent easements, 30-year easements, and restoration cost-share agreements. Program lands may be used for compatible economic uses such as hunting, fishing, or limited timber harvests. Up to 2.275 million acres may be enrolled.	1,506
Farmland Protection Program	Purchases easements or other interests in eligible land (up to 50 percent of fair market value) for the purpose of protecting topsoil by limiting nonagricultural uses of the land. Eligible land means land on a farm or ranch that is subject to a pending offer for purchase from an eligible entity and that has prime, unique, or other productive soil or that contains historical or archeological resources. Eligible land includes cropland, rangeland, grassland, pastureland, and forestland that is an incidental part of the agricultural operation.	597
Wildlife Habitat Incentives Program	Offers cost-share payments through 5- to 10-year agreements to develop and protect and restore wildlife habitat. Allows up to 15 percent of funds each year to be used for increased cost-share assistance to producers who enter into 15-year agreements.	360
Grassland Reserve Program	Offers permanent and 30-year easements ^a and 10- to 30-year rental agreements to grassland owners to assist owners in restoring and conserving eligible land. Up to 2 million acres may be enrolled.	\$254

Sources: GAO analysis of USDA and CBO information and the 2002 farm bill.

^aIn states that impose a maximum duration for easements, the Secretary can use an easement for the maximum duration allowed under state law.

Explanation of Budget Scoring

Budget scoring or scorekeeping is the process of estimating the budgetary effects of pending and enacted legislation and comparing them with a baseline, such as a budget resolution, or to any limits that may be set in law. Scorekeeping tracks data such as budget authority, receipts, outlays, the surplus or deficit, and the public debt limit. The process allows Congress to compare the cost of proposed budget policy changes with existing law in order to enforce spending and revenue levels agreed upon in the budget resolution. The congressional budget committees and the Congressional Budget Office (CBO) score legislation in relation to levels set by Congress in concurrent budget resolutions. The Office of Management and Budget (OMB) also scores legislation for the purposes of developing the President's annual budget proposal, executing the budget, and providing the President with estimates of the budgetary impacts of pending legislation awaiting the President's signature (or veto).

Budget scorekeeping guidelines are used by the congressional budget committees, CBO, and OMB (the "scorekeepers") in measuring compliance with the Congressional Budget and Impoundment Control Act of 1974, as amended, and the Balanced Budget and Emergency Deficit Control Act of 1985, as amended.¹ The purpose of the guidelines is to ensure that the scorekeepers measure the effects of legislation on the deficit consistent with established scorekeeping conventions and with specific legislative requirements regarding discretionary spending, direct spending, and receipts. These guidelines are reviewed annually by the scorekeepers and

¹Budget-scorekeeping guidelines were developed by the executive and legislative branches in order to ensure compliance with the Budget Enforcement Act of 1990, enacted by the Omnibus Budget Reconciliation Act of 1990, Pub. L. No. 101-508, tit. XIII, 104 Stat. 1388-573 (1990), which established discretionary spending limits and pay-as-you-go rules for mandatory programs. The Budget Enforcement Act amended the Congressional Budget and Impoundment Control Act of 1974, Pub. L. No. 93-344, 88 Stat. 297 (1974), and the Balanced Budget and Emergency Deficit Control Act of 1985, Pub. L. No. 99-177, tit. II, 99 Stat. 1037, 1038 (1985) (commonly known as Gramm-Rudman-Hollings). The Omnibus Budget Reconciliation Act of 1993, Pub. L. No. 103-66, 107 Stat. 312 (1993), extended these enforcement mechanisms through fiscal year 1998. The Budget Enforcement Act of 1997, enacted by the Balanced Budget Act of 1997, Pub. L. No. 105-33, tit. X, 111 Stat. 251 (1997), further extended these enforcement mechanisms through fiscal year 2002. Although the enforcement mechanisms of the Budget Enforcement Act expired, or became ineffective, at the end of fiscal year 2002, the scorekeepers continue to apply these scorekeeping principles for budget execution and the congressional budget process.

revised as necessary to adhere to that purpose. The guidelines are contained in Appendix A of OMB Circular No. A-11.²

In general, CBO prepares costs estimates for all bills other than appropriations bills when they are reported by a full committee of either House of Congress. However, CBO also prepares cost estimates for proposals at other stages of the legislative process at the request of a committee of jurisdiction, a budget committee, or the congressional leadership. For example, CBO may prepare cost estimates for a series of bills to be considered by a subcommittee, including draft bills not yet introduced, or for amendments to be considered during committee markups. Similarly, it may prepare cost estimates for floor amendments and for bills that pass one or both Houses. For appropriations bills, CBO provides estimates of outlays that would result from the provision of budget authority. CBO also provides the budget and appropriation committees with frequent tabulations of congressional action on both spending and revenue bills so that Congress can know whether it is acting within the limits set by the annual budget resolution. After CBO cost estimates have been transmitted, they may be revised to correct errors or to incorporate new or updated information. OMB also may revise its estimates for similar reasons.

The Director, CBO, transmits by letter all formal budget and mandate cost estimates of legislative proposals and all requested analyses. Scorekeeping data published by CBO include, but are not limited to, status reports on the effects of congressional actions and comparisons of these actions to targets and ceilings set by Congress in the budget resolutions. Weekly status reports are published in the *Congressional Record* for the Senate during the weeks it is in session and status reports for the House of Representatives are published at least monthly when the House is in session. CBO is also required to produce periodic scorekeeping reports on at least a monthly basis pursuant to section 308(b) of the Congressional Budget and Impoundment Act of 1974, as amended. OMB scorekeeping data generally are not published.

²OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, Nov. 2, 2005.

Time Line of Legislative Actions and CBO and OMB 10-Year Estimates of CSP Costs

Legislation	Calendar years	CBO	OMB
	2001	December: Funding uncapped \$3.7 billion (FYs 2002-2011) ^h	
May: CSP enacted into law ^a	2002	May: Funding uncapped \$2.0 billion (FYs 2002-2011) ⁱ	May: Funding uncapped \$5.9 billion (FYs 2002-2011)
February: \$3.8 billion 11-year cap (FYs 2003-2013) ^b	2003	January: Funding uncapped \$7.8 billion (FYs 2004-2013)	March: Funding capped \$3.8 billion (FYs 2004-2013)
January: \$41.4 million 1-year cap (FY 2004) and repealed \$3.8 billion 11-year cap for FYs 2003-2013 ^c	2004	March: Funding uncapped \$8.9 billion (FYs 2005-2014)	January: Funding uncapped \$9.7 billion (FYs 2005-2014)
October: \$6.0 billion 10-year cap (FYs 2005-2014) ^d			October: Funding capped \$6.0 billion (FYs 2005-2014)
December: \$202.4 million 1-year cap on salaries and personnel expenses (FY 2005) ^e	2005	March: Funding capped except for 2015 \$6.7 billion (FYs 2006-2015)	January: Funding capped except for 2015 \$6.7 billion (FYs 2006-2015)
November: \$259 million 1-year cap on salaries and personnel expenses (FY 2006) ^f	2006	March: Funding capped except for 2016 \$6.4 billion (FYs 2007-2016)	January: Funding capped except for 2016 \$6.2 billion (FYs 2007-2016)
February: \$1.95 billion 5-year cap (FYs 2006-2010) and \$5.65 billion 10-year cap (FYs 2006-2015) ^g			

Sources: GAO analysis of CBO and OMB data and review of legislation.

^aFarm Security and Rural Investment Act of 2002, Pub. L. No. 107-171, 116 Stat. 134 (2002).

Appendix VI
Time Line of Legislative Actions and CBO and
OMB 10-Year Estimates of CSP Costs

^bAgricultural Assistance Act of 2003, Pub. L. No. 108-7, tit. II, § 216, Stat. 538, 546 (2003).

^cAgriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2004, § 752, and Miscellaneous Appropriations and Offsets Act, 2004, § 101, enacted by the Consolidated Appropriations Act, 2004, Pub. L. No. 108-199, 118 Stat. 3 (2004). The exact amounts of these caps were \$41.443 million and \$3.773 billion, respectively.

^dEmergency Supplemental Appropriations for Hurricane Disasters Assistance Act, 2005, § 101(e), enacted by the Military Construction Appropriations and Emergency Hurricane Supplemental Appropriations Act, 2005, Pub. L. No. 108-324, 118 Stat. 1220 (2004). The exact amount of this cap was \$6.037 billion. The Deficit Reduction Act of 2005, Pub. L. No. 109-171, § 1202, (2006), repealed this cap.

^eAgriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2005, § 749, enacted by the Consolidated Appropriations Act, 2005, Pub. L. No. 108-447, 118 Stat. 2809 (Dec. 8, 2004). This law limited the amount of funds available to pay the salaries and expenses of personnel to carry out CSP to \$202.411 million. NRCS officials said that this amount was the total amount of funding available to CSP for fiscal year 2005.

^fAgriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2006, Pub. L. No. 109-97, tit. VII, § 741, 119 Stat. 2120, 2155 (Nov. 10, 2005).

^gDeficit Reduction Act of 2005, Pub. L. No. 109-171, § 1202 (2006). The exact amount of these caps were \$1.954 billion for fiscal years 2006 through 2010 and \$5.650 billion for fiscal years 2006 through 2015.

^hEstimate based on CSP as proposed in S. 1731, 107th Cong. (2001).

ⁱEstimate based on CSP as in the farm bill conference report, H.R. Conf. Rep. No. 107-424 (2002), just prior to the farm bill being enacted into law.

Description of USDA and NRCS Internal Controls and the Results of Reviews of These Controls

Federal agencies have been required for over 20 years to establish and assess internal controls in their programs and financial management activities pursuant to the Federal Managers' Financial Integrity Act of 1982 and other legislative and administrative initiatives.¹ Furthermore, the Improper Payments Information Act of 2002 requires each agency to annually review all programs and activities the agency administers and to identify those that may be susceptible to significant improper payments.² To ensure that programs are managed with integrity and that program operations comply with these requirements, the U.S. Department of Agriculture (USDA) issued a departmental regulation, *Management Accountability and Control*, and a related departmental manual, *Management Control Manual*.³ The departmental regulation establishes departmentwide policy for internal controls. The manual discusses specific controls, including separation of duties, reconciliation of records from two sources, reconciliation of records with physical inventories, limiting access (e.g., authorizations on data systems), providing supervision, documentation of processes and procedures, written delegations of authority, analyzing and reporting on risk, and periodic reviews of performance. As a USDA agency, the Natural Resources Conservation

¹The Federal Managers' Financial Integrity Act of 1982, Pub. L. No. 97-255, 96 Stat. 814 (1982) also requires GAO to issue standards for internal control in government. The standards provide the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement. Office of Management and Budget (OMB) Circular A-123, *Management Accountability and Control*, provides agencies guidance on how to satisfy the requirements of the Federal Managers' Financial Integrity Act of 1982. The term "internal control" is synonymous with "management control," as used in the circular, and covers all aspects of an agency's operations—programmatic, financial, and compliance. Also, the Chief Financial Officers Act of 1990, Pub. L. No. 101-576, 104 Stat. 2838 (1990), calls for financial management systems to comply with internal control standards, and the Federal Financial Management Improvement Act of 1996 (enacted by the Consolidated Appropriations Act, 1997, Pub. L. No. 104-208, 110 Stat. 3009 (1996) identifies internal control as an integral part of improving financial management systems.

²Pub. L. No. 107-300, 116 Stat. 2350 (2002). OMB issued guidance—*Implementation Guidance for the Improper Payments Act of 2002, P.L. 107-300, M-03-13*—on May 21, 2003, to agencies on implementing the Improper Payments Information Act. Among other things, OMB defined significant improper payments as annual erroneous payments exceeding both 2.5 percent of program payments and \$10 million.

³The departmental regulation, No. 1110-002, was issued on Apr. 14, 2004, canceling an earlier department regulation, *Internal/Management Controls*, issued on Feb. 23, 1999. The manual, DM 1110-002, was issued on Nov. 29, 2002.

Appendix VII
Description of USDA and NRCS Internal
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Controls

Service (NRCS) is to follow the internal control guidance in this regulation and manual.

NRCS also has established agency-specific guidance on internal controls, found principally in its *General Manual* and its *Conservation Programs Manual*. The *General Manual* establishes NRCS policy for effectively guarding against waste, loss, and misuse of program resources. Specifically, it outlines the process through which the agency complies with governmentwide requirements for internal management control. The *Conservation Programs Manual* provides specific policy, guidance, and operating procedures for implementing the Conservation Security Program (CSP) (and other programs). For example, the manual sets procedures for key program controls such as the documentation required from an applicant and the conduct of CSP eligibility determinations and contract compliance reviews. The manual also discusses specific responsibilities for program implementation as they relate to internal controls. For example, within each state, the NRCS State Conservationist is responsible for ensuring compliance with internal controls, including separation of duties related to contract approval and payment certification. In addition, this official is responsible for designating in writing the authorized NRCS representative for obligating program funds, disbursing payments, and acting as Contracting Officer.

USDA's Office of Inspector General (IG) issued a report in January 2005 that examined NRCS's compliance with the Improper Payments Information Act of 2002.⁴ Among other things, the IG found that NRCS had not taken sufficient action to comply with the act and related guidance set forth by OMB and USDA's Office of the Chief Financial Officer. In summary, the IG found that NRCS had neither identified the internal control measures in place to preclude, or detect in a timely manner, improper payments nor did it know if the controls were in operation. In addition, the IG noted that NRCS had not conducted adequate risk assessments of potential improper payments for the programs it administers, including CSP. According to the IG, NRCS officials stated that risk assessments were not completed because they did not have the time or personnel to perform them. These officials also said that they misinterpreted the guidance regarding what they needed to do to comply with the act. Accordingly, the

⁴See U.S. Department of Agriculture, Office of Inspector General, *Natural Resources Conservation Service: Compliance with the Improper Payments Information Act of 2002*, Audit Report No. 10601-003-KC (Washington, D.C.: Jan. 10, 2005).

IG recommended that NRCS conduct more thorough risk assessments of all programs with outlays of \$10 million or more (includes CSP) and develop an estimated error rate by (1) developing criteria for identifying program vulnerabilities, (2) determining acceptable risk levels, (3) ranking the risk factors, and (4) establishing controls to ensure their timely and accurate completion. NRCS agreed with the IG's recommendations and indicated that it would take corrective actions by April 30, 2005. In February 2006, IG officials indicated that the IG had not assessed the adequacy of these actions, including NRCS's preparation of risk assessments.

In a January 2004 report, GAO found that significant, pervasive information security control weaknesses exist at USDA, including serious access control weaknesses, as well as other information security weaknesses.⁵ Specifically, USDA had not adequately protected network boundaries, sufficiently controlled network access, appropriately limited mainframe access, or fully implemented a comprehensive program to monitor access activity. In addition, weaknesses in other information security controls, including physical security, personnel controls, system software, application software, and service continuity, further increase the risk to USDA's information systems. As a result, sensitive data—including information relating to the privacy of U.S. citizens, payroll and financial transactions, proprietary information, agricultural production and marketing estimates, and mission critical data—are at increased risk of unauthorized disclosure, modification, or loss, possibly without being detected. Accordingly, GAO recommended that USDA establish a comprehensive security management program, including (1) ensuring that security management positions have the authority and cooperation of agency management to effectively implement and manage security programs, (2) completing periodic risk assessments for systems, (3) completing information security plans and establishing policies and procedures on the basis of identified risks, (4) ensuring that employees complete security awareness training, (5) implementing ongoing tests and evaluations of controls, (6) completing system certifications and accreditations, and (7) developing corrective action plans that clearly tie to identified weaknesses. USDA concurred, but as of January 2006, USDA had not yet fully implemented these recommendations.

⁵See *Information Security: Further Efforts Needed to Address Serious Weaknesses at USDA*, GAO-04-154, Jan. 30, 2004.

Appendix VII
Description of USDA and NRCS Internal
Controls and the Results of Reviews of These
Controls

Furthermore, USDA's fiscal year 2005 performance and accountability report discusses material weaknesses related to USDA's financial and accounting systems and information security program.⁶ Among the material weaknesses identified in the report are NRCS's application controls for its Program Contracts System (ProTracts). To address this weakness, NRCS plans to take a number of actions in fiscal year 2006, including (1) documenting the ProTracts change control process; (2) documenting changes to the ProTracts software; (3) establishing a ProTracts testing process; (4) establishing a formally approved document for the ProTracts payment specifications; and (5) establishing a schedule for the systematic reconciliation of ProTracts appropriations, obligations, and payments with amounts recorded in the department's Foundation Financial Information System.⁷

⁶These weaknesses relate to the requirements found in the Federal Managers' Financial Management Integrity Act, the Federal Financial Management Improvement Act, and the Federal Information Security Management Act. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

⁷The Foundation Financial Information System is USDA's official accounting system for making payments for current and prior year programs. This system is also the source of data used in financial statements for all USDA programs.

Comments from the U.S. Department of Agriculture

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

United States Department of Agriculture



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

APR 10 2006

SUBJECT: Response to Draft GAO-06-312, "Conservation Security Program, Despite Cost Controls, Improved USDA Management is Needed to Ensure Proper Payments and Reduce Duplication with Other Programs"

TO: Robert A. Robinson
Managing Director
Natural Resources and Environment

Thank you for giving the Natural Resources Conservation Service (NRCS) the opportunity to provide a response to the draft report: "Conservation Security Program, Despite Cost Controls, Improved USDA Management is Needed to Ensure Proper Payments and Reduce Duplication with Other Programs." This report provides valuable information that will help NRCS to improve implementation of the Conservation Security Program

Attached is our response which includes technical corrections and responses to findings, referencing sections of the report as identified by a page reference and the report text. It is understood that these comments will be in the final report from the Government Accountability Office (GAO). The Appendices are provided as additional information for GAO, and do not have to be included in the report.

If you have any questions, please contact Dan Runnels, Director, Operations Management and Oversight Division, at (202) 720-9135.

A handwritten signature in black ink, appearing to read "Bruce I. Knight".

BRUCE I. KNIGHT
Chief

Attachment

The Natural Resources Conservation Service provides leadership in a partnership effort to help people conserve, maintain, and improve our natural resources and environment.

An Equal Opportunity Provider and Employer

USDA Responses to GAO-06-312 Draft Report

Technical Corrections:

- For all tables and charts where data source is acknowledged as NRCS, include the date of the data source. Program implementation is dynamic, participant contracts are modified and terminated, and quantities change. Therefore, all data represents a snapshot on the date of the data download.
- **Page 35 O&E reference:** The subject report starting at the paragraph, "Regarding case file documentation, O&E Staff found that documentation used to support decisions on an applicant's eligibility and payment level were not evident in 90 percent – 104 of 116 – case files reviewed. For example, most case files – 85 percent – did not include a copy of the conservation stewardship plan, although the staff found that the plans were done in every case. According to the staff, the lack of documentation in the file outlining the basis for making tier and category decisions places NRCS at risk when dealing with possible contract violations and appeals. This would require an extensive expenditure of staff time to recreate the events and data that lead to these decisions."

NRCS Comment: These statements do not accurately portray what is currently in the O&E CSP report or the information shared with Jim Jones (see below) on February 23, 2006, nor in an e-mail to Jim Jones on February 17, 2006 (also below). What GAO has in this section is from a previous draft.

(Contents of Email to Jim Jones on February 23, 2006)

In addition to the hard copy case file information, the review team went back and looked at the entire 116 case file data contained in our national conservation planning database.

This latest draft report indicates that Conservation Stewardship Plans were found, but components were in a combination of places including hard copy case files, conservation system guides, the CCC-1200, Toolkit and ProTracts, and some had missing components. Some components such as plan maps and plan map attribute information were in almost all plans. Other information such as information to enable evaluation of the effectiveness of the plan in achieving its environmental objectives were either missing or incomplete in up to 60 percent of the stewardship plans. The draft finding recommendations on this issue asks for revised contract folder assembly guidance and a form to be developed. This form will allow field office personnel to use as a check off to make sure that they all have needed conservation stewardship plan components the location of those components, and to state quality assurance reviews examine case files for complete conservation stewardship plans.

The list of Conservation Stewardship Plan components can be found in the Conservation Programs Manual Part 518.70(d). They include:

1. To the extent practicable, a quantitative and qualitative description of the conservation and environmental benefits that the conservation stewardship contract will achieve; a plan map showing the acreage to be enrolled in CSP; the conservation stewardship plan map includes the name of selected watershed, conservation district, county, and State; land use designations: client-specific land use designations can be used on the plan map as desired. The CSP related land use as defined in CPM 518.42a.

See comment 1.

2. A verified benchmark condition inventory as described in CPM 518.61c, --a description of the significant resource concerns and other resource concerns to be addressed in the contract through the adoption of new conservation measures.
3. A description and implementation schedule for: individual conservation practices and measures to be maintained during the contract, consistent with the requirements for the tier(s) of participation and the relevant resource concerns and with the requirements of the sign-up; individual conservation practices and measures to be installed during the contract, consistent with the requirements for the tier(s) of participation and the relevant resource concerns; eligible enhancement activities as selected by the applicant and approved by NRCS; and a schedule for transitioning to higher tier(s) of participation, if applicable.
4. A description of the conservation activities that is required for a participant to transition to a higher tier of participation.
5. Information that will enable evaluation of the effectiveness of the plan in achieving its environmental objectives.
6. Other information determined appropriate by NRCS and described to the applicant.

(Contents of E-mail to Jim Jones February 17, 2006)

As discussed earlier in our comments, we have completed an analysis of the other electronic data files (Conservation Toolkit - by policy the means for developing a stewardship plan and Protracts which holds the electronic contract documentation) to determine if stewardship plans were completed for the reviewed contracts. The previous review as we discussed earlier we felt was incomplete, because the analysis the team had completed was based upon hard copies in the files only.

The revised DRAFT O&E report now reflects a finding as follows regarding the stewardship plans:

Conservation Security Program electronic or hard copy participant case file documentation is not always complete in meeting requirements for conservation stewardship plans. This is caused by unclear guidance in the Conservation Programs Manual for the development of Conservation Stewardship Plans and the lack of State Quality Assurance Reviews examining Conservation Stewardship Plan case files for all components listed in the Conservation Programs Manual 518.70(d).

The stewardship plans were present in either hard copy or electronic files, but we found missing components. The draft report contains recommendations for actions on policy clarification, training, and quality assurance reviews of plans similar to the sentence you suggested that you were going to add to your report. Since we have not reviewed this report with leadership, and reached agreement on the findings and recommendations, we view the report not completed as stated earlier. We would ask that you still recognize that in your report.

Responses to Findings and Recommendations:

Page 11 second sentence Issue: Quality assurance and case file documentation

The GAO report indicates that an internal NRCS audit had determined a weakness in NRCS quality assurance procedures and case file documentation requirements; because the auditors found that many of the 2004 contracts studied had not had an annual contract review, according to documentation that was available in the case file.

NRCS Response: The 2004 sign up and contracting activities were completed very late in fiscal year (FY) 2004, and concluded in September of 2004, just before the end of the fiscal year. In August 2005, NRCS issued a revised Conservation Program Manual with updated instructions on conducting contract reviews. The current NRCS policy provides that the Designated Conservationist will review contract implementation annually for all long-term contracts.

512.55 Contract Reviews – provides the following:

(b) Annual Reviews Required

The Designated Conservationist (DC) will review contract implementation annually.

- If all practices are applied as scheduled and other contract provisions are being followed, this finding will be documented in the contract folder.
- If the provisions of the contract are not being followed, the NRCS representatives will document those findings on form NRCS-CPA-13. The contract review will be signed by the NRCS representative. When the NRCS representative is a person other than the Designated Conservationist (DC), both the reviewing representative and DC will sign form NRCS-CPA-13. A copy will be provided to the participant, and the original will be placed in the contract folder.
- The DC will work with the participant(s) to resolve all issues and document all actions that need to be taken to complete the contract, including establishing a timeframe for the participant to comply with the contract provisions. The document will be signed by the DC and the participant. (Form NRCS-LTP-153 may be used.)

If the DC finds that all practices are applied as scheduled and other contract provisions are being followed, this finding is to be documented in the contract folder. If everything in the contract is on schedule, there are no forms to fill out and no field verification visits necessary. NRCS plans to emphasize the need for the DC to complete the case file documentation that the annual contract review was completed, and then proceed to make the annual payment.

For CSP, the newly developed contracts that were reviewed by the oversight and evaluation team were in fact being applied as scheduled and had received their annual payment. The fact that the auditors determined there was not adequate documentation in the case file, was due to the recent change in the Conservation Program Manual where the previously used form CPA-13 was not completed. In the past, the CPA-13 form was completed for each review and filed with the contract. Since the new CSP contracts were on schedule and being carried out as expected, there was no need to fill out the contract review form, but notes about the review should have been entered in the case file notes. NRCS will provide additional training to State offices and field offices about the need to provide documentation in the case file notes about the annual contract review. NRCS plans to release a National Bulletin to all State and field offices in FY 2006 to address this issue.

Pages 12, 42, and 57 - Wildlife habitat assessment criteria:

The report states, “as of February 2006, NRCS had not reviewed or field tested each State office’s criteria and did not have plans to do so.”

See comment 2.

NRCS Response: NRCS wildlife biologists did collect the wildlife habitat models that were used in all States in 2005. Although NRCS did not conduct a thorough review and field test of the State models, a quick cursory review found that most States had developed the wildlife models as instructed in the national guidance. However, a couple of States still need to make additional changes to more fully adhere to the national guidance for 2006.

At the CSP national training in October and November 2005, specific instruction was provided to all States to follow the national criteria for developing their State wildlife habitat assessment tools. In addition, the national program office also conducted an Internet-based net-conference with all States to review the required criteria for development of the assessment tools and emphasized the need for adherence to the established criteria. NRCS has issued a National Bulletin to all offices during the 2006 sign-up to reemphasize the criteria that States must use in developing their wildlife habitat assessment models. This national directive was issued to all States as National Bulletin 300-6-37, on March 21, 2006. The directives stated purpose was to issue CSP guidance to the State and Field level employees for the FY 2006 sign-up on Wildlife Habitat Assessment Criteria.

The specific instructions provided to States for 2006 are attached in Appendix A.

Page 29 - Section Heading: The GAO report states, “USDA has authority to control CSP costs and has established cost control measures, but needs to improve internal controls and better ensure consistency in NRCS State offices’ determinations of producer eligibility.”

NRCS Comment: NRCS has strived to continually improve CSP program delivery by field personnel and uphold sufficient internal controls and State-to-State consistency. In 2004 and 2005, NRCS conducted special de-briefing meetings with field personnel involved in program implementation. For example, after the 2005 de-briefing held in October 2005, the NRCS national CSP program staff took immediate action to correct the concerns or deficiencies identified at the meeting and produced 36 National Bulletins to address the issues. In Appendix B is a list and brief summary of the actions taken by program staff at the national office to strengthen internal controls and program delivery.

Page 30: The GAO report provides a good background on the history of the CSP program and its implementation since being approved in the 2002 Farm Bill.

NRCS Comment: NRCS suggests that the background information in the GAO report also include an estimate of the projected costs for implementing the program without the cost controls introduced by NRCS on a nationwide basis. The report does a good job of identifying many of the cost controls mechanisms that NRCS has put in place, but falls short in not providing a discussion of the full cost of the program with out such controls.

NRCS noted that safeguards placed on the program (sub-category qualifications and the number of eligible watersheds) as well as on budgetary outlays has significantly reduced the likelihood of budget overruns. For example, some analysts originally estimated that nationwide CSP participation levels at over 900,000 (or almost 50 percent of all agricultural producers) at a cost ranging from almost \$5 billion to as high as \$7 billion over the life of the program (Page 42 and 48 of the March 18, 2005 CSP Amendment to the Interim Final Rule Benefit-Cost Assessment http://www.nrcs.usda.gov/programs/csp/2005_CSP_WS/CSP-AmendIFR-econ-analysis.pdf).

See comment 3.

Page 44: Producer eligibility based on water quality issues.

The report states: “NRCS state officials also expressed concerns about other inconsistencies among States in determining producer eligibility for certain CSP payments. In particular, the cited inconsistencies in State’s determinations that producers are sufficiently addressing water quality issues. An NRCS official said that NRCS’s program office was aware of this issue and that NRCS had developed a national water quality checklist that seeks to bring about more consistency in water quality determinations by requiring that all FY 2006 signup applicants complete the checklist as part of the application process.”

See comment 4.

NRCS Comment: There appears to be a bit of confusion in these statements because they do not differentiate CSP program activities on water quality between the years 2004, 2005, and 2006. In 2004, NRCS relied on its State-based practice standards 590 and 595, Nutrient Management and Pest Management, for determining if CSP applicants were meeting eligibility requirements for water quality concerns. Even before the end of the 2004 sign up, NRCS was convinced this process needed to be changed due to differences in States practice standards due to State specific regulations and requirements that became problematic where CSP watersheds transcended State lines.

In 2005, NRCS improved its management process for determining CSP eligibility by utilizing a water quality checklist developed by each State with national criteria for each watershed area that included criteria for all the critical concerns regarding nutrients, pesticides, and sediment that each applicant was required to meet for eligibility. The water quality checklist provided more consistent results in 2005 than the State-based practice standards used in 2004.

However, NRCS remained committed to additional management improvements in determining water quality eligibility in CSP, and initiated work to develop a tool that used indices and scales to achieve an overall water quality assessment rating. NRCS has made good progress in introducing the use of several very efficient and simple tools to determine eligibility in CSP, including the Soil Conditioning Index, the Water Management Index, the Water Quality Eligibility Tool, and is working on Grazing Land Eligibility Tool. The new national water quality eligibility tool that assigns points for the applicant’s current conservation activities and the level of water quality protection it provides. This tool is a major management improvement for the year 2006 and provides a better level of consistency and quality than years 2004 and 2005.

Page 58 – second recommendation: The GAO report recommended that NRCS include a reference to the national guidance for wildlife habitat assessment criteria in the CSP Program Manual.

NRCS Comment: Typically, NRCS does not restate special technical procedures in its program manuals for activities such as conservation planning, or assessment tools and techniques that are more fully described in other agency handbooks, such as the NRCS Planning Procedures Handbook, the National Agronomy Manual, and the National Biology Manual. This is necessary to avoid a maintenance and revision problem with changes in the source document or the program manual. In addition, the specific wildlife habitat assessment criteria that is cited above was included in the training material packets that were used at

See comment 5.

5 national training events in 2005 where more than 1,500 NRCS employees were instructed on how to develop the assessment tools. Furthermore, given the significance of this concern, NRCS is proposing the development of a special Technical Note that would be prepared by NRCS Wildlife Biologists to describe the use of the assessment tool and assessment criteria to be used by States for programs such as CSP.

Page 58 – third recommendation: The GAO report recommended that NRCS develop a comprehensive process, such as an automated system, to review CSP contract applications to ensure that CSP payments, if awarded, would not duplicate payments made by other USDA conservation programs.

NRCS Comment: NRCS has initiated a certification form in the Self Assessment workbook for the CSP 2006 sign up that informs the applicant that the Farm Bill prohibits duplicative payments for financial assistance payments made through CSP and another program on the same land, at the same time. This addendum to the self assessment workbook will ask the applicant to certify whether or not they are receiving payments from another conservation program on any of the land being offered for enrollment in the CSP-06-01 sign-up. If they are, they must identify the source of payments; what the payment is for; and what part of the agricultural operation is receiving the payment. This addendum to the CSP Self Assessment was issued as a directive to all States in National Bulletin 300-6-36, dated March 15, 2006, for use in the 2006 CSP sign up.

The addendum document is attached in Appendix C:

See comment 6.

In addition, NRCS plans to revise the current CCC-1200 Contract Appendix to include a statement about prohibitions on duplicative payments. NRCS will ensure that both the field staff and the program participant are fully aware of the prohibition on duplicative payments. Until other automation features can be developed and incorporated into NRCS' contracting software, these procedures will help to eliminate the occurrence of duplicative payments made under CSP and other conservation programs.

Page 58 fourth recommendation - The GAO report recommended that NRCS develop a process to efficiently review existing CSP contracts to identify cases where CSP payments duplicate payments made under other programs and take action to remedy the situation and to ensure that these duplicative payments are not repeated in FY 2006 and beyond.

NRCS Comment: NRCS has improved management oversight to cross check payments made to CSP participants and participants under other conservation programs, namely the Environmental Quality Incentive Program (EQIP) and the Wildlife Habitat Incentive Program (WHIP), to see if duplicative payments have been made. This analysis process will be used for all current and new participants to perform a cross check to prevent duplicative payments. If duplicative payments have been made, NRCS has existing contracting procedures that can be utilized to recover the payments.

The following are GAO's comments on the letter from the U.S. Department of Agriculture dated April 10, 2006.

GAO Comments

1. We deleted the language cited by NRCS as being from an earlier Oversight and Evaluation (O&E) draft report and no longer accurate.
2. Because some NRCS state offices have not fully adhered to the agency's national guidance for wildlife habitat assessment criteria, NRCS said that it issued a national bulletin to all of its state offices during the fiscal year 2006 CSP sign-up to reemphasize the guidance that these offices must use in developing their wildlife habitat assessment criteria. While the promulgation of this bulletin should be helpful, we still believe that NRCS should review and field check each NRCS state office's assessment criteria to ensure that states use consistent criteria and achieve the wildlife habitat benefits intended by the national guidance. In addition, field checks would help to establish baseline information on the habitat results produced by the existing general wildlife habitat assessment criteria. Such information would be useful in determining whether these criteria need adjustment.
3. We are not aware of any formal estimates or studies of the potential cost of CSP in the absence of funding caps and NRCS cost controls. The report discusses estimates of program costs developed by the Congressional Budget Office (CBO) and the Office of Management and Budget (OMB) that have ranged as high as \$9.7 billion. In general, these estimates consider statutory funding caps, farm bill provisions, and the manner in which NRCS has implemented the program, including cost control measures. NRCS cites the benefit-cost assessment it prepared for the amendment to the interim final rule for CSP as a possible source of this information. However, according to this assessment, none of the alternatives discussed fully excludes NRCS cost controls. In addition, the assessment notes that the benefit-cost model used has a number of simplifying assumptions and, because of these assumptions, the model should not be relied on to predict actual participation rates, tier or regional distribution, or the magnitude of payments. Instead, the assessment indicates the model is best used to predict the direction of how participation would change if a particular program feature is changed, rather than the magnitude of the change. Furthermore, the assessment states that the benefit-cost model has not been validated so its ability to predict program participation has not been assessed.

4. We have modified the report to reflect this information on the methods NRCS has used to determine whether producers are sufficiently addressing water quality issues.
5. In lieu of including a reference in its *Conservation Programs Manual*, NRCS said that it is proposing that NRCS wildlife biologists develop a special technical note that would describe how the national guidance for wildlife habitat assessment should be used by NRCS state offices. While this step would be useful, we still believe that the inclusion of a reference in the manual to the national guidance would help to emphasize its importance to NRCS state and field-level employees. The *Conservation Programs Manual* is the primary guidance document used by NRCS state and field-level officials in implementing CSP. Furthermore, the inclusion of a reference in this manual need not be a complete restatement of the national guidance that is provided in other documents, including training materials and the technical note, if created. Instead, this reference could state that national guidance exists and should be followed by state offices in developing their wildlife habitat assessment criteria. The reference also could identify relevant resource materials (other manuals, bulletins, technical notes, training materials, etc.) that describe this guidance.
6. We agree that the planned revisions in the self-assessment workbook and the contract appendix will provide greater assurance that CSP payments do not duplicate payments made by other USDA conservation programs. However, while most producers probably provide accurate and complete information on their program applications, NRCS has found that this is not always the case. For example, according to a February 2006 News Release by NRCS's Washington state office, 15 CSP contract holders in the Upper Crab and Rock watersheds were issued "intent to terminate" notices regarding their submission of apparently false information associated with their program applications. Specifically, these producers appeared to have provided false or altered soil test results. USDA's Office of Inspector General is investigating this matter. Because program applicants may purposefully or inadvertently provide inaccurate information in their program applications, we urge NRCS to proceed with the development and implementation of automated methods to identify potentially duplicative payments before they are made.

GAO Contact and Staff Acknowledgments

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Staff Acknowledgments

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