Statement of
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Mr. Chairman and members of the subcommittee, we appreciate the opportunity to review conservation programs delivered by the U.S. Department of Agriculture (USDA). We are pleased to share our experiences in implementing the Conservation Title. We will also offer our observations on the changing business environment in which programs operate, the working relationships with our USDA conservation partners, and the opportunities and challenges we face in implementing the 2008 Farm Bill.

FARM SERVICE AGENCY

Background and Programs

The Farm Service Agency (FSA) delivers conservation, commodity, credit, and emergency programs. Program level funding varies depending upon market and weather conditions and new legislation. For fiscal years (FYs) 2007 and 2008, the program level was $30.8 billion and $25.0 billion, respectively. We estimate the level to be $23.7 billion for FY 2009. FSA has a staffing level of just under 14,700 staff years and an annual salaries and expenses budget of about $1.5 billion.

FSA's conservation programs include the Conservation Reserve Program (CRP), Emergency Conservation Program (ECP), Grass Roots Source Water Program (Source Water), Voluntary Public Access and Habitat Incentive Program (Public Access), and the Emergency Forestry Restoration Program. FSA also shares program delivery with the Natural Resources Conservation Service (NRCS) of the Grassland Reserve Program.

Implementation Model

Most FSA programs are delivered through a network of State and county offices that are located in over 2,200 rural counties. Other programs, such as Source Water, are implemented through the National Rural Water Association and Public Access is implemented as grants to State and Tribal governments.

At the contract level, under CRP, FSA assists farmers and ranchers with enrolling land, ensuring compliance with program goals and requirements, managing the contract, making payments, and obtaining technical assistance which is generally provided by NRCS or local conservation districts. In some cases, non-Government providers may also offer technical assistance which includes practice eligibility determinations and conservation plan development.

In delivering its conservation programs, FSA has entered into agreements with some of its partners to provide technical support. Chief among those agreements is FSA's relationship with NRCS. Since the 1930's, FSA and NRCS employees have worked closely together to assist farmers and ranchers in conserving and improving our Nation's natural resources.

The NRCS role included developing technical standards and providing technical assistance. Over time, NRCS' role has expanded in the area of program delivery as this Committee has added a number of important conservation programs to the NRCS portfolio including the Environmental Quality Incentives Program (EQIP), Conservation Security Program, and Wetlands Reserve Program (WRP).

FSA's agreement with NRCS for CRP includes providing technical assistance. Other Government partners include USDA's Forest Service (FS) and Cooperative State Research, Education, and Extension Service; State forestry agencies, and local soil and water conservation districts.

FSA, NRCS, and FS have a long history of delivering conservation programs to farm and ranch community. Since the Dust Bowl days of the 1930's, FSA and NRCS have been partners in delivering conservation programs' financial and technical assistance. The success of our efforts is seen across the landscape in windbreaks, waterways, filterstrips, and wetlands implemented through programs such as conservation compliance, ACP, EQIP and CRP.

Both Agencies are committed to the delivery of conservation program that will "get conservation on the ground" in an efficient and effective manner. We take our fiduciary responsibilities seriously and want to be accountable to the public for our performance. These common goals require the Agencies to work together and with our partners.

At the National level, the Agencies jointly work in the development of program policies such as CRP. The Agencies meet on a regular basis to discuss resource allocation issues and ways to improve program performance. In the case of CRP, FSA administers the program but utilizes the strength of Agencies such as NRCS and FS for providing technical assistance.

NRCS and FS are recognized as leaders in developing conservation practice technical standards and conservation plans and providing conservation technical assistance. Also, soil surveys and natural resource and forest inventories are critical components of designing effective conservation programs.

FSA has been delivering conservation programs since the 1930's. Since the 1980's, FSA and its partners, including NRCS, transformed the CRP program from primarily an erosion control program to a multi-dimensional conservation program that now addresses water quality, wildlife, water quantity, threatened and endangered species, and carbon sequestration issues.

2008 Farm Bill Implementation

The 2008 Farm Bill responded to a broad range of ongoing conservation challenges including soil erosion, wetlands conservation, water quality, wildlife habitat, and potential markets for sequestered carbon and other environmental services.

The 2008 Farm Bill re-authorized CRP and Source Water and authorized, for the first time, Public Access and the Emergency Forestry Restoration Program.

The CRP-related provisions will be implemented in two parts. We are working diligently on Part 1, which includes the Farmable Wetland Program (i.e., aquaculture restoration, constructed wetlands, flooded prairie wetlands, and wetland restoration), tree thinning, and the conservation exception under the new Average Adjusted Gross Income provisions.

The other CRP-related provisions of the 2008 Farm Bill which includes cropping history requirements, transition payment to beginning and socially disadvantaged farmers and ranchers, and routine grazing are scheduled to be implemented after completion of an Environmental Impact Statement.

Public Access provides grants to State Governments and Tribes to expand public access opportunities on private land and is scheduled to be implemented later this year.

The Emergency Forestry Restoration Program will assist in the restoration of forests damaged due to natural disasters including replanting. An appropriation of funds is necessary to implement.

Program Accomplishments

America's farmers and ranchers have made significantly strides to lessen the impact on our Nation's environment over the last 20 years. Under all USDA conservation programs, soil erosion on cropland has been reduced by over 1.2 billion tons per year. As of February 2009, CRP participants have restored more than 2 million acres of wetlands and about 2 million acres of buffers. Land enrolled in CRP will also reduce soil erosion by 400 million tons each year and has the potential to be one of Nation's largest carbon sequestration programs on private lands.

During October 2008, FSA issued over 900,000 checks to CRP participants and most of the participants received their payment with a few days after they were eligible. FSA maintains many of the databases that are essential including Average Adjusted Gross Income, conservation compliance, financial offset. FSA also works extensively with NRCS to integrate our databases to assist them in implementing programs such as Environmental Quality Incentive Program, Grassland Reserve Program, and other programs.

Program Performance – Financial

In an environment of increasing public service demands, scrutiny and decreasing resources, FSA has improved program integrity and fiscal stewardship by enhancing internal controls, transparency, and accountability in USDA's financial management programs. By recognizing that strong internal controls and solid financial management practices are the cornerstones of effective federal stewardship, FSA has focused much of this effort on working to address weaknesses.

By developing and implementing corrective action plans that ensured a correct measurement of improper paperwork and improper payments, FSA was able to reduce its improper payments reported from $2.9 billion (11.2 percent) to $187 million (1.3 percent) between FYs 2006 and 2008. In addition, commitment to continuous improvement to strengthening internal controls and accountability has resulted in the achievement in seven consecutive Commodity Credit Corporation (CCC) unqualified or "clean" financial statement audit opinions, testimony that the CCC's financial statement data is reliable, accurate, and complete.

FSA continues to work on improving our financial controls for our program. From FY 2006 through FY 2008, we conducted reviews under the Improper Payments Information Act (IPIA) to determine the potential extent of improper payments and ways to improve our business process.

These statistical surveys indicated that the error rate for improper payments for CRP was 3.53 percent for FY 2006 which was reduced to 1.25 percent for FY 2008. For CRP and other programs, this reduction was achieved through an aggressive commitment by the Agency which included: (1) direct senior management involvement; (2) agency-wide training; (3) increased accountability at levels; (4) development and use of checklists; (5) enhanced program eligibility verification; (6) elimination of automatic rollover of eligibility determinations; (7) improved documentation control; (8) a comprehensive re-examination of payment files; and (9) increased internal controls and external audits.

Future Outlook

Further improvements in financial integrity are planned. Under CRP, software to record financial obligations at the contract level is scheduled for release within the year.

The recently enacted Stimulus Bill provided $50 million to assist with the stabilization and modernization of FSA's Information Technology systems. This funding will be used to continue essential investments to stabilize the infrastructure and performance of the web-based systems and to initiate the modernization program to provide a modern-day IT system architecture supporting Farm Program delivery and moving away from the 1980's era technologies used today.

We also have ongoing efforts to: (1) improve data quality and develop a data warehouse; (2) improve the governance and the quality of user requirements; and (3) to improve and standardize common business process. These efforts all require significant staff and financial resources.

Geospatial Information Systems (GIS) is an innovative technology that FSA and NRCS have been working with over the last decade to change the way the Agencies manage conservation programs. GIS provides an intuitive solution for managing, visualizing, and understanding land information that enables more efficient management of conservation programs.

FSA and NRCS have acquired and developed a substantial collection of computerized map assets such as soil survey, aerial imagery (NAIP), farm field boundaries (Common Land Unit that describes the agricultural activities nationwide), and others that are used both internal to USDA and are available to the wide range of customers via data centers and data warehouses.

Integration of these powerful resources into everyday business processes is an ongoing challenge to the Agencies but significant progress has been made in laying the foundation for implementing cost-effective and common sense solutions to better support FSA conservation efforts and conservation program delivery. GIS has the capability to support and enable better decision-making and effective solutions to the wide range of conservation issues that FSA faces in the coming years.

While environmental indicators clearly show progress in resource conservation is being made, many challenges remain and new issues continue to emerge. For example, excess nutrients impair water quality in many rivers, streams, and lakes, and hypoxia is a significant problem in the Gulf of Mexico, Chesapeake Bay, and other waters. In addition, conflicts over water availability for agriculture, environmental, and urban use are increasing as water demands increase. As one of the largest water users, agriculture has a vital interest in securing water quality and quantity. Conservation is bringing about important achievements, but more can be done, particularly for wetland and aquatic systems.

In the near term, CRP contracts enrolling about 3.9 million acres are scheduled to expire on September 30, 2009. Taking into account the reduced enrollment authority of 32.0 million acres and ongoing enrollment for continuous signup practices, there is some room under the cap to enroll more acres, though there is insufficient authority to re-enroll all of these acres.   The lost conservation benefit could result in increases in water and air pollution and could exacerbate recovery of the Lesser Prairie Chicken in the southern Great Plains.

NATURAL RESOURCES CONSERVATION SERVICE

Conservation Investments and Trends

Before getting into the operational mechanics of the NRCS conservation programs, I would like to take just a moment to put the federal investment in agricultural conservation programs into perspective. Consider for a moment the following trends in conservation program investments just in the past twelve years:

- In 1996, many of the conservation programs that are so familiar today were just in their infancy. Congress created and authorized EQIP at $200 million per year, but it was regularly limited to nearly $170 million per year.

- In 1996, new programs such as the Farm and Ranch Lands Protection Program (FRPP) and Wildlife Habitat Incentives Program (WHIP) were funded at $35 million and $50 million <u>total</u> over the life of that Farm Bill.

- From the 1996 to 2002 Farm Bills, conservation program investments were increased by more than $17 billion over the previous baseline of spending, with programs such as EQIP receiving over a billion in annual spending. FRPP and WHIP greatly expanded in scope and ambitious new programs such as the Conservation Security Program were created.

- The 2008 Farm Bill continued this support with an additional increase of more than $4 billion over the previous baseline.

- Today, NRCS implements more than 20 conservation programs and initiatives, with an annual budget of more than $3 billion.

2008 Accomplishments

The significant investments made by this Subcommittee in Farm Bill conservation programs, combined with the complete range of conservation authorities and initiatives are generating impressive results. USDA appreciates the ongoing support of this Subcommittee to ensure that farmers and ranchers have the financial and technical resources they need to realize their conservation goals. Consider for a moment the conservation accomplishments from last year:

- During FY 2008, NRCS employees helped develop conservation plans covering more than 42 million acres of privately owned farm, ranch, and forestland. We also assisted producers and other land managers to voluntarily implement conservation practices on nearly 50 million acres. These actions on private lands yield public benefits we all enjoy in the form of cleaner and more abundant water, cleaner air, improved wildlife habitat and healthier soils.

- NRCS provided more than $2 billion in financial assistance to landowners and communities to encourage participation in programs such as EQIP, WHIP, CSP, FRPP and others, resulting in tens of thousands of cost share and incentive contracts and easements.

- Volunteers contributed over 810,000 hours to NRCS efforts—valued at over $15 million. The agency also expanded conservation implementation capacity through the certification and re-certification of several hundred Technical Service Providers.

- Beyond delivering planning and technical assistance, NRCS influenced the acceleration and adoption of new technologies, standards and approaches through Conservation Innovation Grants and our National Technology Support Centers.

- The NRCS Snow Survey and Water Supply Forecasting program issued 12,500 water supply forecasts and we mapped or updated soil surveys for over 35 million acres.

Cumulative Results

Looking at the implementation of conservation programs just since the beginning of this decade, NRCS has worked with farmers, ranchers, and landowners to:

- Apply conservation plans and systems on 328 million acres.

- Apply conservation practices through the Environmental Quality Incentives Program (EQIP) on 145 million acres.

- Enter into nearly 313,000 (EQIP) contracts.

- Create or restore wetlands on 2.7 million acres.

- Apply comprehensive nutrient management plans on almost 40 million acres.

- Develop new or updated soil maps on 260 million acres.

- Deploy a new Web Soil Survey Program with more than 3.5 million website visits by the public.

These accomplishments are a testament to the continued trust and relationship that we maintain at the local level with farmers, ranchers, Conservation Districts, and other partners. As we initiate implementation of the 2008 Farm Bill, with its increased investment in conservation programs, NRCS looks forward building on these accomplishments.

Growing Conservation and Some Growing Pains – the NRCS Financial Audit

While the results of conservation programs and investments have reshaped the landscape, it is clear that just getting conservation on the ground is not the full measure of program success. With the change in the scope of conservation programs and expenditures, it has come a realization that we need to better assess and maintain excellence in accounting procedures and execution, and to ensure that our recordkeeping systems are robust.

In FY 2008, NRCS contracted with an external audit firm to conduct our first stand-alone financial audit, under the supervision of the USDA Office of Inspector General and the USDA Office of the Chief Financial Officer. At the end of the FY 2008 audit, the auditors issued a disclaimer of opinion. The auditors found problems with the accuracy and completeness of the FY 2008 financial information. In some measure, this was due to inadequate recordkeeping in NRCS offices. During the timeframe of the audit period, NRCS was unable to provide the auditors adequate support to verify our financial information as presented for FY 2008. In other words, we could not prove the validity of our numbers.

The auditors found five material weaknesses: accounting and controls for (1) undelivered orders, (2) unfilled customer orders, (3) accrued expenses, (4) property, plant and equipment, and (5) controls over financial reporting. They also identified deficiencies in our internal controls over purchase and fleet card transactions, and the general controls environment for our information systems.

NRCS understands the seriousness of these findings and is moving aggressively to correct them. When informed of the auditors' preliminary findings, NRCS began developing a corrective action plan and initiated a massive undertaking--a review of over 160,000 open obligations. To our knowledge, a review of this size and scope is unprecedented in the federal government. The agency developed and delivered training to over 330 NRCS personnel in mid-November, 2008 and continues to aggressively review open obligations. So far NRCS has deobligated over $1.3 billion since the review started in FY 2007. To help prevent this from reoccurring, NRCS now mandates that all line officers formally certify on a quarterly basis the accuracy, reliability, and completeness of information in 21 separate areas of financial management.

During this file-by-file, transaction-by-transaction evaluation, we learned a great deal about our existing contracts, easements, and other open obligations. As a result of the audit and our aggressive approach, we have outlined a comprehensive corrective action plan necessary to establish a firm foundation for going forward. NRCS is analyzing and rewriting policy and procedures for program, administrative, and financial aspects of our business to ensure that all responsible parties understand what is required. In addition, we have begun an initiative to redesign and streamline our business processes. I am confident this initiative will lead to the development of new strategies for delivering conservation assistance that are more efficient and effective.

The external auditor is currently performing a special review of corrective actions taken to date for the FY 2008 audit. The results of this review will be available in April. In addition, the audit firm has started work on the FY 2009 financial audit. Our goal is to have a clean audit in the near future.

Clarifying the Term, "Deobligation of Funds"

Prior to the stand-alone audit, a limited scope review in FY 2007 showed a high number of fund deobligations within our agricultural conservation programs. *Deobligation* of funding occurs when funding that was previously obligated—either through a contract or agreement—is released because of cancellation, termination, modification or spending adjustments.

A key point to remember is that whenever funds are deobligated, they are not lost to the taxpayer nor are the funds necessarily lost to a prospective farmer or rancher. Funds deobligated in our discretionary programs—Conservation Technical Assistance, Emergency Watershed Protection, Watershed Rehabilitation, for example—are generally shifted to other priority projects within the respective program. Funds deobligated in mandatory Farm Bill programs, if not used for contract modifications or cost overruns, are eventually returned to the Treasury.

There are a number of reasons why funds may be deobligated out of contracts. These reasons vary across the diverse suite of programs delivered by NRCS. Some deobligations historically have occurred because of how NRCS delivered its programs. Here are some examples:

(1) A WHIP contract included a plan for a field border, including the number of acres and the costs associated with creating the border. Both the number of acres and the costs were estimates at the time of obligation. Two years later, when the producer went to install the field border, the costs both came in less than estimated. The excess funding in the contract resulted in a deobligation of the difference between the estimate and the actual cost.

(2) For a WRP contract, restoration costs were estimated based on a preliminary restoration plan. When the wetland restoration was actually completed some time later, it was found that the restoration costs were overestimated, leading to deobligation of some funds.

Deobligations also routinely occur because of noncompliance caused by the sale or transfer of property, changes in agricultural operations, death or serious illness of participants, natural disasters, bankruptcies, and personal hardships. These factors cannot be anticipated at the time a contract is signed. Here are a few examples:

- EQIP contracts can be up to 10 years in length. A producer signed up in year one with a commitment to install a grassed waterway in year five of the contract. Funding was obligated for all of the practices in the contract at the time the contract was signed at the beginning of year one. In year three, the producer passed away and the family decided to sell the farm. The funds for the grassed waterway had to be deobligated.

- In 2004, a producer signed a contract that included an animal waste structure to be built in 2006. After Hurricane Katrina, the cost of construction materials skyrocketed. The producer was unable to afford his or her share of the cost to build the structure in 2006, and the funds were deobligated.

Again, deobligations due to these types of producer noncompliance cannot be anticipated at the time a contract is signed. We have a keen interest in answering the question—what is an acceptable rate of deobligation for the types of programs NRCS administers? A 2005 Economic Research Service analysis estimated that the average annual exit rate for farms is nine to ten percent per year. Our latest estimated exit rate for EQIP contracts is thirteen percent annually. The constantly shifting mosaic of conditions in the agricultural economy and industry as a whole and at the individual farm scale indicates that some level of deobligation is expected. That is not to say, however, that NRCS is not committed to reducing deobligations. We have embarked on a number of efforts to do just that, to reduce to the greatest extent possible the number and amount of deobligations due to NRCS business practices and program policies.

A key point to remember is that Farm Bill conservation program contracts are distinctive agreements., These contracts are a product of an individual farmer or rancher voluntarily offering his or her own financial resources toward a benefit not just for themselves but for the public writ large. NRCS manages hundreds of thousands of conservation program contracts. It is inevitable that, with some frequency, a producer's personal or financial situation will change over the lifetime of a contract. Our objective is to ensure that farmers can be good conservation stewards while maintaining productivity and profitability. Cancellation of conservation projects are a reality and, given the emerging economic climate, may increase in the near term.

Moving Forward

Looking ahead, we believe we are better positioned to handle the issues raised by the audit and fund deobligation statistics. Starting two years ago, NRCS began developing a number of new business tools and practices that will improve our financial management controls. This fall, we will introduce a business tool that will integrate easement contracts into our financial management system. Currently, we are reviewing every policy document produced by the agency to find ways to improve program delivery, tighten financial controls, and reduce fund deobligations. In 2008, the agency implemented a new WRP business model that will result in improved payment controls and fewer deobligations. Two other program policy changes—payment schedules and a payment inflation index—should also help reduce future deobligations. Finally, as I mentioned earlier, we have launched an initiative to establish a new vision for delivering our programs and carrying out the agency's core activities—conservation planning and the application of conservation practices—through a new business model and modernized workforce.

The audit has been a positive experience for NRCS in that it pointed out ways that the agency can achieve a higher standard in implementation of its programs. The issues that the audit raised are solvable and we have taken aggressive action to immediately address the deficiencies and weaknesses in our financial system. However, we recognize that these issues will not be solved overnight. Our corrective action plan details actions that will be implemented over the next year and beyond. . NRCS leadership is evaluating options to address accounting expertise across the Agency and issuing strengthened policies and procedures governing business and financial management processes. In February 2009, the USDA Office of Inspector General concurred, without exception, to our planned actions.

We believe we are on the right track to be better equipped for success in financial management for the future. NRCS has evolved greatly over the last two years in our understanding of proper accounting for our financial resources. We have embraced the financial audit as a way to improve achieving our mission and stewardship of taxpayer assets. I want to reinforce that the audit did not show any instances of funds being misused or improper payments. We recognize that there are three critical aspects of the situation: human capital, processes, and systems. Our planned remedies to the problems revealed by the audit will address each of these critical areas.

Conclusion

Conservation programs have provided notable achievements in both conserving and protecting our natural resources. However, several existing and emerging environmental challenges will require needed attention. Efficient and effective delivery of USDA conservation programs could not occur without a strong working relationship between FSA and NRCS. The Agencies will continue to work to improve the delivery of program services and to ensure the environmental benefits are achieved in a sound fiduciary manner. We thank the Chairman and members of the Subcommittee and would be happy to respond to any questions that members might have.