



U.S. Department of Agriculture Office of Inspector General



Environmental Quality Incentives Program Payment Schedule—Cost Estimation Process

Audit Report 10601-0008-31

We reviewed the Environmental Quality Incentives Program (EQIP) payment schedule process, including the methodology for cost estimation, and corrective actions Natural Resources Conservation Service (NRCS) took in response to prior EQIP audit recommendations.

OBJECTIVE

We evaluated NRCS' EQIP payment schedule process, including its methodology for cost estimation, and ensured applicable corrective actions taken in response to prior audit recommendations remained effective.

REVIEWED

We evaluated the effectiveness of NRCS' internal audit review of its FY 2021 payment schedule component prices. We reviewed NRCS policies and training materials, interviewed NRCS national officials, and reviewed NRCS' final action documentation submitted to the Office of the Chief Financial Officer.

RECOMMENDS

We are not making any recommendations.

WHAT OIG FOUND

We determined that the methodologies NRCS used by the National Cost Team and the National Core Team for fiscal year (FY) 2021 provided a consistent, reliable, and defensible approach for the EQIP payment schedule process, including cost estimation.

We also determined that NRCS' corrective actions in response to all six of the recommendations from our prior EQIP audit remained effective as of the scope of this audit. Accordingly, we are not making any recommendations in this report and the agency elected to not provide a written response.



OFFICE OF INSPECTOR GENERAL

United States Department of Agriculture



DATE: January 23, 2024

AUDIT

NUMBER: 10601-0008-31

TO: Terry Cosby
Chief
Natural Resources Conservation Service

ATTN: Robert Bradley
External Audits, Farm Production and Conservation – Business Center for Natural
Resources Conservation Service

FROM: Janet Sorensen
Assistant Inspector General for Audit

SUBJECT: Environmental Quality Incentives Program Payment Schedule—Cost Estimation
Process

This report presents the results of the subject review. We are not making any recommendations in this report. No further action by your staff is required.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publicly available information and will be posted in its entirety to our website (<https://usdaoig.oversight.gov>) in the near future.

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Background and Objectives

Background

The United States Department of Agriculture's (USDA) Natural Resources Conservation Service (NRCS) supports conservation efforts across America's working lands by promoting practices that help improve production, reduce input costs, and conserve natural resources. NRCS' flagship conservation program is the Environmental Quality Incentives Program (EQIP), which helps farmers, ranchers, and forest landowners (hereafter referred to as *producers*) integrate conservation practices into working lands. EQIP provides technical and financial assistance to producers to address natural resource concerns related to:

- Water and air quality;
- Ground and surface water conservation;
- Soil erosion and health;
- Wildlife habitat; and
- Drought and weather volatility.

EQIP is available in all 50 States, as well as the District of Columbia, Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa, and the Northern Mariana Islands. Through EQIP, NRCS provides producers with one-on-one help and financial assistance to plan and implement improvements, which NRCS calls *conservation practices*. These conservation practices offer solutions that conserve natural resources for the future while improving agricultural operations, such as reducing soil erosion or reducing energy use.

The 2018 Farm Bill provided EQIP more than \$9 billion in funding from fiscal year (FY) 2019 through FY 2023.¹ The Inflation Reduction Act authorized an additional \$8.45 billion for EQIP from FY 2023 through FY 2026.² As discussed in a March 2023 Office of Inspector General (OIG) informational report, more than 97 percent of Inflation Reduction Act funding for EQIP is to be allocated for FY 2024 through FY 2026.³

NRCS calculates EQIP producer payments using payment schedules. A payment schedule lists the rates for all eligible practices or activities for a defined geographic area. Figure 1 illustrates the elements needed to implement a conservation practice, using the example of a producer who plans to install an energy efficient lighting system to reduce energy use in a poultry house.

¹ Agriculture Improvement Act of 2018, Pub. L. No. 115-334, § 2501, 132 Stat. 4576 (2018).

² Inflation Reduction Act, Pub. L. No. 117-169, § 21001, 136 Stat. 2015 (2022).

³ For additional details regarding Inflation Reduction Act funding of EQIP, see OIG Informational Report 10601-0008-31(IN1), [Inflation Reduction Act - Environmental Quality Incentives Program](#), Mar. 2023.



Figure 1. The Elements of EQIP Conservation Practices. Figure by OIG.

Prior OIG Audit

In September 2019, OIG issued Audit Report 10601-0005-31, *Environmental Quality Incentives Program Payment Schedules*.⁴ The audit objectives were to: (1) determine if NRCS' EQIP payment schedules represented producers' costs to implement the conservation practices and if the payments were in accordance with the statutory limit; and (2) determine if the use of regional payment schedules was a cost-effective method to provide adequate coverage for all natural resource concerns. We found that NRCS did not always prioritize controls for updating component prices and relied on outdated and inaccurate component prices to calculate payment schedules. The prior audit resulted in six recommendations. According to information maintained by USDA's Office of the Chief Financial Officer, NRCS had completed implementation of all corrective actions to address the prior audit's recommendations. The Office of the Chief Financial Officer closed the last recommendation on August 3, 2022.⁵

Objectives

Our objectives were to evaluate NRCS' EQIP payment schedule process, including its methodology for cost estimation, and ensure applicable corrective actions taken in response to prior audit recommendations remain effective.

⁴ Audit Report 10601-0005-31, [Environmental Quality Incentives Program Payment Schedules](#), Sept. 2019.

⁵ The Office of the Chief Financial Officer closes audit recommendations when an agency provides supporting documentation demonstrating that it has completed the corrective actions.

Section 1: Evaluation of NRCS' EQIP Payment Schedule Process and the Effectiveness of NRCS Corrective Actions to OIG's Prior Audit

Based on our evaluation of NRCS' EQIP payment schedule process, we determined that NRCS has taken steps to improve the process. For example, since 2019, NRCS added controls, such as National Core Team officials performing an internal audit review of financial data and documentation developed by a National Cost Team. Also, NRCS completed final actions between June 2020 and August 2022 on corrective actions taken in response to prior audit recommendations. For example, NRCS published an updated handbook on its website in January 2022.⁶ Subsequently, NRCS further revised its handbook in August 2023 to include policy guiding its internal audit review.⁷ Our review identified that NRCS followed draft *Payment Schedule Handbook* guidance for its cost estimation process in FY 2021. Overall, our review of the payment schedule methodology NRCS used for FY 2021 found NRCS' process provided a consistent, reliable, and defensible approach for the payment schedule process, including cost estimation.

Specifically, for FY 2021, NRCS payment schedule contracts included 986 components with associated costs. We non-statistically selected and evaluated the 21 components with the highest total attributed costs. We noted that during the FY 2021 payment schedule development process, NRCS' internal audit reviewers had identified issues with component prices that required additional follow-up by the National Cost Team, such as missing calculations, miscalculations in formulas, missing documentation, and missing dates on supporting documentation. The National Cost Team corrected those issues before releasing the FY 2021 payment schedules, resulting in prices for the 21 components that we determined were supported and current.

We also verified that NRCS completed all corrective actions needed to close the recommendations made in the prior audit report and verified that NRCS' corrective actions were effective during our sample scope period. We reviewed the documentation that NRCS submitted to the Office of the Chief Financial Officer supporting the corrective actions taken for the six recommendations from the prior EQIP payment schedule audit. We did not identify issues or concerns with NRCS' payment schedule process in FY 2021. Therefore, we determined that NRCS' corrective actions in response to all six of the recommendations from our prior EQIP audit remained effective as of the scope of our corrective action review.

The table below lists the prior recommendations from Audit Report 10601-0005-31, *Environmental Quality Incentives Program Payment Schedules*, issued in September 2019,⁸ and corrective actions that NRCS implemented in response to those recommendations. The table is a summary of NRCS' documented corrective actions.

⁶ USDA NRCS, Title 300, *Payment Schedule Handbook*, Part 600, "Payment Schedules," Amend. 1 (Jan. 2022).

⁷ USDA NRCS, Title 300, *Payment Schedule Handbook*, Part 600, "Payment Schedules" (Aug. 2023).

⁸ Audit Report 10601-0005-31, [Environmental Quality Incentives Program Payment Schedules](#), Sept. 2019.

Prior Report Recommendation	OIG Verified NRCS Documented its Corrective Actions
<p>1. Assess the current EQIP payment schedule process, identify opportunities to make it more manageable and effective, and then make changes to the process as appropriate.</p>	<ul style="list-style-type: none"> • Reorganized the administration of payment schedules. • Streamlined the number of payment schedule scenarios and components. • Completed final actions by November 13, 2020.
<p>2. Develop and implement a process to validate component prices by collecting and reviewing a sufficient number of receipts from EQIP producers, or by comparing actual costs on receipts to the estimated costs from the payment schedule, and take action when actual costs on the receipts do not validate the estimated costs from the payment schedule.</p>	<ul style="list-style-type: none"> • Regional Scenario Managers assisted the National Cost Team by providing current vendor quotes and estimates for components. • Direct input from Regional Scenario Managers assisted the National Cost Team with assigning component prices. • Completed final actions by August 10, 2020.
<p>3. Ensure the National Cost Team has followed the process established in Recommendation 1. Also, ensure the National Cost Team has sufficient resources to complete these tasks.</p>	<ul style="list-style-type: none"> • Procured funding to build new internal controls in the Payment Schedule Application. • Established and trained a team to update component prices. • Completed final actions by June 29, 2020.
<p>4. Ensure the EQIP payment schedule includes necessary components and scenarios to address State and regional needs and exceptions.</p>	<ul style="list-style-type: none"> • Implemented additional controls to optimize the payment schedule development process. • Performed an internal audit review of FY 2021 payment schedule component prices. • Completed final actions by August 3, 2022.
<p>5. Provide employees with comprehensive, nationwide training in administering EQIP, including EQIP payment schedules, allowable costs and services, and certification of practices.</p>	<ul style="list-style-type: none"> • Hosted a workshop to provide training for officials responsible for the development of payment schedules. • Provided training material for NRCS officials. • Completed final actions by August 10, 2020.
<p>6. Expand current internal reviews to address control weaknesses identified in this report.</p>	<ul style="list-style-type: none"> • Developed policy and initiated an internal control process to ensure proper payment schedule development. • USDA Farm Production and Conservation Internal Auditing Branch conducted an audit of the payment schedule process. • Completed final actions by April 22, 2022.

Since the conclusion of our sample scope period for this review, NRCS officials informed us that the National Core Team has continued to conduct the internal audit review that we found to be effective. In October 2022, NRCS issued new guidance that allowed States to develop new cost

estimates starting in FY 2023, in addition to the nationally determined cost estimates.⁹ NRCS made this change to address concerns raised by States, including the lack of timely responses to changing economic situations. We noted that this change to NRCS' controls expanded the number of parties conducting cost estimates for payment schedules, expanding from 1 set of nationally determined costs to potentially more than 50 sets of State- and Territory-determined costs.

In November 2023, NRCS informed us that it is conducting a review of the State- and Territory-determined cost estimates. We did not evaluate the State- and Territory process, as it was outside our scope period. Thus, we are not making recommendations at this time. We encourage NRCS' National Core Team to continue its internal reviews of the cost estimation process. This would help ensure EQIP cost estimates are consistent, reliable, and defensible, as the Inflation Reduction Act authorized \$8.45 billion in funding for EQIP through FY 2026.

OIG will monitor implementation of these changes and assess key risks as we plan oversight work of USDA's entire portfolio of programs and activities.

⁹ NRCS, National Bulletin NB 450-23-1, TCH Authorization of Geographically Specific Payment Scenarios Created in Conservation Desktop (Oct. 6, 2022).

Scope and Methodology

Our audit of the EQIP payment schedule cost estimation process covered the actions that NRCS took on EQIP from September 24, 2019,¹⁰ through September 30, 2021. Specifically, we evaluated NRCS' EQIP payment schedule process, including its methodology for cost estimation, and reviewed NRCS' corrective actions taken in response to OIG's prior EQIP payment schedule audit report.¹¹ To complete our review of NRCS' corrective actions taken in response to prior audit recommendations, we expanded the scope of our corrective action review to August 3, 2022. We expanded the scope because, according to information maintained by the Office of the Chief Financial Officer, the last recommendation was not closed until August 3, 2022. We performed our fieldwork from November 2021 to December 2023. We discussed our conclusions with agency officials. The agency elected to not provide a written response.

We selected a non-statistical sample of 21 payment schedule components from FY 2021 to evaluate whether the methodologies used by the National Cost Team and National Core Team provided a consistent, reliable, and defensible approach for payment schedule estimation. In FY 2021, payment schedule contracts included 986 components with associated costs. The selected 21 components had the highest total associated costs for FY 2021 payment schedule contracts. The 21 components represented more than \$868 million of the more than \$1.7 billion in FY 2021 payment schedule contracts.

To accomplish our audit objectives, we:

- Evaluated the effectiveness of NRCS' internal audit review of its FY 2021 payment schedule component prices.
- Reviewed NRCS policies related to the EQIP payment schedule process, including the methodology for cost estimation. We also reviewed the training materials NRCS developed for the EQIP payment schedule process.
- Interviewed NRCS national officials regarding the EQIP payment schedule process. This included discussions on the actions that NRCS officials took to address recommendations from our prior EQIP payment schedule audit.
- Reviewed final action documentation that NRCS submitted to the Office of the Chief Financial Officer for the six recommendations from the prior EQIP payment schedule audit. We assessed whether NRCS' corrective actions were sufficient to address all six recommendations and remained effective.

¹⁰ Audit 10601-0005-31, [Environmental Quality Incentives Program Payment Schedules](#), Sept. 2019.

¹¹ Ibid.

We assessed internal controls significant to the audit objectives. Specifically, we assessed the following components and underlying principles:

Component	Principle
Control Activities	Management should design control activities to achieve objectives and respond to risks
Control Activities	Management should implement control activities through policies
Monitoring	Management should remediate identified internal control deficiencies on a timely basis

Because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

During our audit, we obtained data regarding the payment schedule component usage from NRCS officials. We used the data to select our non-statistical sample to review. An NRCS national official said that the information was based on contract data from the Program Contracts System and is cross-referenced with Payment Schedule Application scenario data. We assessed the data reliability of the payment schedule component usage data by conducting reasonability tests and determined that the data were sufficiently reliable for the purposes of this report. However, we did not assess the overall reliability of any NRCS information system to carry out EQIP activities and make no representation regarding the adequacy of any agency computer system.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Abbreviations

EQIP.....	Environmental Quality Incentives Program
FY	fiscal year
LED.....	light-emitting diode
NRCS	Natural Resources Conservation Service
OIG	Office of Inspector General
USDA.....	U.S. Department of Agriculture

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