United States Department of Agriculture

Natural Resources Conservation Service's Balance Sheet for Fiscal Year 2018

Audit Report 10403-0001-11

November 2018

OFFICE OF INSPECTOR GENERAL

United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250

DATE: November 15, 2018

AUDIT NUMBER: 10403-0001-11

TO: Leonard Jordan
Acting Chief
Natural Resources Conservation Service

ATTN: Jeffrey Machelski
Chief Financial Officer

Leon Brooks
Director, Compliance Division

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Natural Resources Conservation Service's Balance Sheet for Fiscal Year 2018

This report presents the results of the audit of Natural Resources Conservation Service's (NRCS) balance sheet as of September 30, 2018. The report contains an unmodified opinion on the balance sheet, as well as an assessment of NRCS' internal controls over financial reporting and compliance with laws and regulations.

KPMG LLP, an independent certified public accounting firm, conducted the audit. In connection with the contract, we reviewed KPMG LLP's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit, in accordance with government auditing standards issued by the Comptroller General of the United States of America (U.S.), was not intended to enable us to express, and we do not express, an opinion on NRCS' balance sheet; internal control; whether NRCS' financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996 (FFMIA); or conclusions on compliance with laws and regulations. KPMG LLP is responsible for the attached auditor's report, dated November 14, 2018, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with government auditing standards and the Office of Management and Budget Bulletin 19-01, *Audit Requirements for Federal Financial Statements*.

It is the opinion of KPMG LLP, that the balance sheet presents fairly, in all material respects, NRCS' financial position as of September 30, 2018, in conformity with accounting principles generally accepted in the U.S.

KPMG LLP's report identified two deficiencies. Specifically, KPMG LLP identified weaknesses in NRCS':

- accounting and controls over obligations and undelivered orders; and
- accounting and controls over expenses.

KPMG LLP considered both deficiencies to be material weaknesses. The results of KPMG LLP's tests of compliance with laws and regulations disclosed instances of noncompliance with FFMIA.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, and timeframes for implementing the recommendations for which management decisions have not been reached. Please note that the regulation requires management decision to be reached on all recommendations within 6 months from report issuance, and final action to be taken within one year of each management decision to prevent being listed in the Department's annual Agency Financial Report. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the courtesies and cooperation extended during this audit. This report contains publicly available information and will be posted in its entirety to our website http://www.usda.gov/oig in the near future.

Natural Resources Conservation Service
Independent Auditors' Report
As of September 30, 2018

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KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Chief, Natural Resources Conservation Service and
Inspector General, United States Department of Agriculture:

Report on the Financial Statement

We have audited the accompanying balance sheet of the Natural Resources Conservation Service (NRCS) as of September 30, 2018, and the related notes to the financial statement ("the financial statement").

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of the Natural Resources Conservation Service as of September 30, 2018 in accordance with U.S. generally accepted accounting principles.

Other Matters

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the *Agency Financial Report* to provide additional information for the users of its financial statement. Such information is not a required part of the basic financial statement or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections be presented to supplement the basic financial statement. Such information, although not a part of the basic financial statement, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statement, and other knowledge we obtained during our audit of the basic financial statement. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statement as a whole. The Table of Contents, Message from the Chief on page 1, and the Other Information section on pages 45-64 are presented for purposes of additional analysis and is not a required part of the basic financial statement. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement as of September 30, 2018, we considered the NRCS's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the NRCS's internal control. Accordingly, we do not express an opinion on the effectiveness of the NRCS's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in Exhibit I, we did identify certain deficiencies in internal control that we consider to be material weaknesses. The status of prior year material weaknesses is described in Exhibit III.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a

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deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Exhibit I to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the NRCS's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-01.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances, described in Exhibit II, in which the NRCS's financial management systems did not substantially comply with the applicable Federal accounting standards and the United States Government Standard General Ledger at the transaction level. The status of prior year noncompliance findings is described in Exhibit IV.

NRCS's Response to Findings

The NRCS's response to the findings identified in our audit is described in Exhibit V. The NRCS's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on the response.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the NRCS's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 14, 2018

Number 1: Improved Accounting and Controls are Needed Over Obligations and Undelivered Orders (Repeat Condition)

NRCS lacked effective internal controls to ensure the accuracy of budgetary account balances reported in its general ledger. Specifically, internal controls were not effective to ensure:

- Timely and accurate recording of obligations and liquidations including related journal vouchers; and
- Maintenance and availability of sufficient documentation to support budgetary activities, such as obligations, modifications, and recoveries of prior year obligations.

When testing undelivered orders (UDOs) balance as of September 30, 2018, we identified 9 exceptions out of a sample of 244 items. These UDO exceptions resulted from a lack of supporting documentation, invalid obligations, and untimely adjustments for work delivered. When testing the fiscal year (FY) 2018 downward adjustments to prior year unpaid obligations, we identified 18 exceptions out of a sample of 80 items. These downward adjustment exceptions resulted from untimely recording, inadequate documentation, and incorrect use of the standard general ledger accounts based on the nature of the transaction. These internal control weaknesses increase the risk of material misstatements in the general ledger and noncompliance with the Antideficiency Act.

When testing completeness of obligations as of September 30, 2018, we noted 2 exceptions out of a sample of 244 items resulting from agreements not being recorded in a timely manner.

The exceptions described above occurred because of a lack of:

- Timely recording and liquidations of obligations by NRCS process owners;
- Sufficient training on process execution and/or monitoring by NRCS process owners of modifications and recoveries of prior year unpaid obligations; and
- Adherence to existing United States Department of Agriculture (USDA) Departmental policy titled Management *Accountability and Control* for maintaining adequate supporting documentation over the life cycle of an accounting transaction.

The *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States, Principle No.10, *Design Control Activities*, provides the requirements for the design of internal controls over transactions and balances. Principle No. 10 states, “Documentation is a necessary part of an effective internal control system. The level and nature of documentation vary based on the size of the entity and the complexity of the operational processes the entity performs. Management uses judgment in determining the extent of documentation that is needed. Documentation is required for the effective design, implementation, and operating effectiveness of an entity’s internal control system.” Additionally, with regard to accountability for records and resources, “Management may periodically compare resources with the recorded accountability to help reduce the risk of errors, fraud, misuse, or unauthorized alteration."

Office of Management and Budget (OMB) Circular A-123, *Managements Responsibility for Enterprise Risk Management and Internal Control*, Appendix D, which incorporates by reference Circular A-127, *Financial Management Systems*, as revised, states, “financial events shall be recorded applying the requirements of the *U.S. Government Standard General Ledger* (USSGL). Application of the USSGL at the transaction level requires that approved transactions be recorded using appropriate general ledger accounts as defined in the USSGL guidance”. Circular A-123, Appendix D also states, “the agency financial management system shall be able to provide financial information in a timely and useful fashion to allow compliance with Federal accounting standards, and support fiscal management of program delivery and program decision making, including, as necessary, the requirements for financial statements prepared in accordance with the form and content prescribed by OMB”.

Recommendation 1:

We continue to recognize the need for NRCS management to:

- Develop and implement a process that tracks agreement progress to ensure all signed agreements have been recorded in the financial system (*Recommendation 1B of Audit Report No. 10401-0009-11, November 2017*);
- Monitor open obligations (USSGL accounts 4801 and 4802) to ensure that they are recorded in the appropriate period and liquidated timely (*Recommendation 1B of Audit Report No. 10401-0003-11 December 2013*); and
- Provide adequate training to personnel related to the documentation requirements for support (*Recommendation 1C of Audit Report No. 10401-0003-11 December 2013*).

Number 2: Improved Accounting and Controls are Needed Over Expenses (Repeat Condition)

Controls are Needed Over the Year-End Accrual Estimates

NRCS lacked sufficient internal controls over its new entity-wide year-end accrual estimate process and internal controls related to the review of expense activity to timely prevent, detect, and correct, errors related to expenses. Specifically, controls were not implemented to ensure expenses were recorded in the correct fiscal year (i.e., period-end accrual policy was not followed).

When testing the completeness and accuracy of NRCS transactional data used as part of its entity-wide expense accrual estimate process, we identified (1) 11 subsequent expense transactions in the data extracts that were incorrectly allocated between fiscal years, (2) 38 expense transactions that were incorrectly filtered based on the criteria established by management, (3) four adjustments that contained input errors or were incorrectly calculated, and (4) six transactions that were not consistent with management's criteria as it relates to the treatment of UDOs with period of performances close to year-end.

When testing completeness of the accrued expense balance (i.e., non entity- wide year-end accruals) as of September 30, 2018, we noted five exceptions out of a sample of 30 items resulting from current year expenses that were not properly accrued in the current year. NRCS management subsequently corrected the accrual balance by the amount of $41 million, leaving an additional $11 million of expenses that have not been properly recognized as accrued expenses in the current year.

Additionally, we noted that NRCS does not require control operators to provide negative responses for obligations that do require an accrual and we identified 13 intra-governmental expense transactions (i.e., Intra-Governmental Payment and Collection) that did not undergo the required review and certification process.

When testing FY 2018 expense transactions, we identified 29 exceptions out of a sample of 516 items. We noted that 23 exceptions related to prior year expenses that were not accrued in the prior year and 6 exceptions related to transactions with future economic benefits (i.e., pre-paid expense) recorded as current year expenses.

The exceptions above occurred because of:

- Lack of sufficient controls to ensure that the data used in its entity-wide expense accrual process is complete and accurate;
- NRCS personnel did not record expense accruals in accordance with NRCS General Manager Title 250, Part 414.11, which requires accruals to be recorded for all expenses incurred but not yet paid using an invoice, performance report, written cost estimate, or confirmation letter; and

- Sufficient training on process execution by NRCS process owners related to the recording of transactions with future economic benefits (i.e., pre-paid expenses).

The *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States, Principle No.12, *Documentation of Responsibilities through Policies* provides the requirements for the design of internal controls and supervision to ensure compliance with policies. Principle No. 12 states: "Management communicates to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities. Procedures may include the timing of when a control activity occurs and any follow-up corrective actions to be performed by competent personnel if deficiencies are identified. Each unit also documents policies in the appropriate level of detail to allow management to effectively monitor the control activity."

Statement of Federal Financial Accounting Standards 1: Accounting for Selected Assets and Liabilities, paragraph 59 states: "Advances and prepayments should be recorded as assets. Advances and prepayments are reduced when goods or services are received, contract terms are met, progress is made under a contract, or prepaid expenses expire."

Recommendation 2:

We recommend, specifically related to the entity-wide corporate accrual process, that NRCS management:

A. Design, implement, and document policies and procedures that include documented internal controls which provide support that NRCS has reviewed the transactional data and assumptions used in its entity-wide expenses accrual process.
B. Design, implement, and document policies and procedures that include documented internal controls which provide support that NRCS has reviewed all expenses excluded from its entity-wide accrual policy and evaluate the need for any additional accruals.
C. Provide additional guidance and/or training to employees over the recording of transactions with future economic benefits.

Additionally, we continue to recognize the need for NRCS management to implement corrective action over the following related to non entity-wide accruals:

- Enhance policy and control procedures for the accuracy and consistent application of period end accruals (*Recommendation 3A of Audit Report No. 10401-0005-11, November 2015*); and
- Provide adequate training to personnel relating to the accrual policy (*Recommendation 3B of Audit Report No. 10401-0005-11, November 2015*).

Improved Controls are Needed Over the Monitoring of Service Organizations

NRCS did not maintain effective internal control related to service organizations, including evaluating and documenting the roles of sub-service organizations and maintaining documentary evidence related to the implementation of complimentary end user controls (CUEC) identified in Service and Organization Controls (SOC) reports.

The *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States overview section on Service Organizations states, in part:

- **Roles in an internal control system:** Management is directly responsible for all activities of an entity, including the design, implementation, and operating effectiveness of an entity's internal control system.
- **Service Organizations:** Management may engage external parties to perform certain operational processes for the entity, such as accounting and payroll processing, security services, or health care claims processing. For the purpose of the Green Book, these external parties are referred to as service organizations. Management, however, retains responsibility for the performance of processes assigned

to service organizations. Therefore, management needs to understand the controls each service organization has designed, has implemented, and operates for the assigned operational process and how the service organization’s internal control system impacts the entity’s internal control system.

- **Service Organizations (continued):** If the controls performed by the service organization are necessary for the entity to achieve its objectives and address risks related to the assigned operational process, the entity’s internal controls may include complementary user entity controls identified by the service organization or its auditors that are necessary to achieve the service organization’s control objectives.

Recommendation 3:

We continue to recognize the need for NRCS management to appropriately align knowledgeable resources to evaluate the roles and controls at those service organizations, and identify and assess the CUECs of those service organizations. Identification and assessment of CUECs should include consideration of the following:

- Are there any CUECs identified by the service organization that are relevant to the entity?;
- Are the CUECs identified, implemented and operating effectively at NRCS?; and
- If the service auditor's report cannot be relied on (i.e., if there is an uncovered subservice organization), what compensating controls, if any, are needed? (Recommendation 3 of Audit Report No. 10401-0009-11, November 2017).

COMPLIANCE WITH LAWS AND REGULATIONS

Number 3: NRCS Did Not Substantially Comply with the Federal Financial Management Improvement Act of 1996 (Repeat Condition)

The FFMIA, Section 803(a) requires that Federal financial management systems comply with (1) Federal system requirements, (2) Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. FFMIA emphasizes the need for agencies to have systems that can generate timely, reliable, and useful information with which to make informed decisions to ensure ongoing accountability.

We identified instances where the financial management systems did not substantially comply with the applicable Federal accounting standards and the United States Government Standard General Ledger (USSGL) at the transaction level.

Recommendation:

We recommend that management implement the recommendations presented in Exhibit I, to resolve the instances of noncompliance with FFMIA.

Exhibit III

STATUS OF PRIOR YEAR MATERIAL WEAKNESSES

Open Conditions in this Table are Referenced in Exhibit I			
Material Weakness	**Recommendation**	**Status**	**Reference**
Number 1: Improved Accounting and Controls are Needed Over Obligations and Undelivered Orders *(Repeat Condition: 2017, 2016, 2015, 2014, and 2013 Material Weakness)*	1. We recommend that management of NRCS: A. Enhance processes and NRCS feeder systems to improve monitoring of activity in U.S. Standard General Ledger (USSGL) 4871 and 4881 and ensure that invalid upward and downward. adjustments are identified and corrected in a timely manner and that balances are appropriate; and B. Develop and implement a process that tracks agreement progress to ensure all signed agreements have been recorded in the financial system.	 Closed Open	USDA OIG Audit Report No. 10401-0009-11, November 2017
	1. We recommend that management of NRCS: A. Monitor activity in U.S. Standard General Ledger (USSGL) 4871 and 4881 to ensure that invalid upward and downward adjustments are identified and corrected in a timely manner and that balances are appropriate; B. Monitor open obligations (USSGL accounts 4801 and 4802) to ensure that they are recorded in the appropriate period and liquidated timely; and C. Provide adequate training to personnel related to the documentation requirements for support.	 Closed Open Open	USDA OIG Audit Report No. 10401-0003-11 December 2013
Number 2: Improved Accounting and Controls are Needed over Expenses *(Repeat Condition: 2017, 2016, 2015, 2014, and 2013 Material Weakness)*	3. We recommend that NRCS management appropriately align knowledgeable resources to evaluate the roles of service organizations, assess controls at those service organizations, and identify and assess the CUECs of those service organizations. Identification and assessment of CUECs should address the following: • Are there any CUECs identified by the service organization that are relevant to the entity? • Are the CUECs identified, implemented and operating effectively at NRCS? • If the service auditor's report cannot be relied on (i.e., if there is an uncovered subservice	Open	USDA OIG Audit Report No. 10401-0009-11, November 2017

	organization), what compensating controls, if any, are needed?		
	3. We recommend that NRCS Management: A. Enhance policy and control procedures for the accuracy and consistent application of period end accruals; and B. Provide adequate training to personnel relating to the new accrual policy.	 Open Open	USDA OIG Audit Report No. 10401-0005-11 November 2015
	2. We recommend that NRCS Management: A. Identify and document transactions that, when required, are recorded in accordance with the guidance found in SFFAS No. 21: Reporting Correction of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources. 3. We recommend that NRCS Management: A. Provide guidance and/or training to employees on policies and procedures to ensure purchase transactions have adequate supporting documentation (e.g., purchase requisitions, purchase orders, invoices, etc.) to determine if they are accurate and exist; and B. Enhance monitoring controls over payment approvals to determine whether appropriate documentation is provided to support the disbursement. C. Enhance procedures to determine if accrued expenses are complete, accurate, and exist at quarter-ends and are properly supported.	 Closed Closed Closed Closed	USDA OIG Audit Report No. 10401-0003-11 December 2013

Exhibit IV

STATUS OF PRIOR YEAR NON-COMPLIANCE FINDINGS

USDA OIG Audit Report No. 10401-0009-11 November 2017	
Reported Condition in FY 2017	**Status in FY 2018**
NRCS Does Not Substantially Comply with Federal Financial Management Improvement Act of 1996	Open – comment Repeated in FY 2018

USDA

November 13, 2018

Mr. Brian Grega
KPMG, LLP
1801 K Street, N.W., Suite 1200
Washington, D.C. 20006

Dear Mr. Grega:

We have reviewed the KPMG Independent Auditor's Report of the Natural Resources Conservation Service's (NRCS) Fiscal Year (FY) 2018 Financial Statements, and generally agree with its contents. In FY 2018, NRCS focused on laying the foundation to fully remediate the remaining significant deficiencies and move closer to an unmodified audit opinion on all statements.

Key accomplishments in FY 2018 included:

Obligations and Expenses:

- Implemented the ezFedGrants grants and agreements management system to improve the transparency of recording and liquidating obligations;
- Implemented a 6-digit budget fiscal year to provide accessible, searchable, and reliable data to track agency spending, and facilitate the identification of upward and downward adjustments;
- Re-engineered the process for reviewing data files to ensure that invalid upward and downward adjustments are identified and negated in a timely manner;
- Obtained funding and issued contracts to vendors for enhancements to Protracts, the web-enabled application that streamlines the application and contracting process for conservation programs, that will improve the accuracy of reporting upward and downward adjustments;
- Implemented a corporate accrual process to record accruals for all 41xx and 25xx BOC transactions at the macro level to ensure expense accruals for the majority of the unliquidated obligation population are recorded;
- Implemented a confirmation process, including negative confirmations, for all divisions to ensure direct-entry expense accruals outside the scope of the corporate accrual process are recorded; and
- Conducted a clean-up exercise on undelivered orders resulting in the validation or de-obligation of over 200 grants, agreements, and contracts valued at more than $12 million dollars.

In FY 2019 we will continue to build on our successes through our audit remediation efforts, with the ultimate goal of achieving an unmodified audit opinion on all statements.

Sincerely,

Jeffrey S. Machelski
Chief Financial Officer

cc:
USDA Office of Inspector General

Natural Resources Conservation Service

Fiscal Year 2018

Agency Financial Report

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Message from the Chief

On behalf of the Natural Resources Conservation Service (NRCS), I respectfully submit the Agency Financial Report (AFR) for Fiscal Year (FY) 2018.

In accordance with Departmental guidelines, and as required by the Federal Managers' Financial Integrity Act (FMFIA) and the Office of Management and Budget's Circular, *Management's Responsibility for Internal Control*, NRCS acknowledges responsibility for the internal control environment. We have evaluated our internal controls and financial systems. NRCS continues to make financial reporting improvements and remediate existing material weaknesses and financial system noncompliance. Management continues to implement corrective action plan activities. Therefore, I provide a modified statement of assurance that, except for the areas in need of improvement as described in the Management Assurances section of this report, NRCS's internal control over operations, financial systems, and financial reporting meets the objectives of FMFIA and the Federal Financial Management Improvement Act.

NRCS is comprised of more than 10,000 public servants working to help farmers, ranchers, and forest stewards across the country boost agricultural productivity and protect our natural resources through conservation.

We help them find and implement the best solutions to meet their unique conservation and business goals. The systems of practices we promote help producers improve the health of the soil and water, restore wetlands and wildlife populations, and keep working lands working. NRCS is working with America's producers to ensure the long-term sustainability of American agriculture.

Farmers are our customers and our heroes. Two-thirds of the land in the lower 48 states is privately owned. Private landowner stewardship is what will determine that land's health and productivity. Our customers are voluntarily making improvements to help their operations and conserve our natural resources. And NRCS continues to offer financial and technical resources to help producers make conservation work for them.

Improving Soil Health

Healthy soil is the foundation of agriculture. Private landowners are working with NRCS to implement proven soil health practices and systems – like no-till, cover cropping, and diverse rotations – on their lands. These practices are boosting the health of their soils and reducing the need for expensive inputs like nutrients and pesticides. Healthy soils are better at holding water and nutrients. That means more stored water during drought, and less flooding downstream in heavy rainfall. Soil and nutrients that stay on the land don't end up in our rivers and streams.

Fueling the Development of New Technologies and Emerging Markets

We're supporting the development of emerging markets for carbon, water quality, wetlands, and biodiversity – markets that can become an economic driver for conservation while at the same time generating new sources of income for rural communities. Through programs like the Conservation Innovation Grants Program, we're fueling the development of new and exciting tools and technologies, helping farmers improve their agricultural and conservation outcomes.

Data-Driven Conservation

We're using the latest science, research, and data to support our work. Through the Conservation Effects Assessment Project, we are examining the impact conservation has on working lands. We look at the effects of certain practices and how additional treatment could benefit that land and that producer.

Sediment loss simulations, for instance, show that national cropland conservation practices can reduce edge-of-field sediment losses by 278 million tons per year relative to conditions if no conservation practices were in place. If you were to load that sediment onto a train, you'd fill 2.6 million train cars stretching over 30,000 miles.

Focusing on Customer Experience

This year we've been examining every facet of our agency and determining how we can make our customer experience even better -- from the programs and services we offer, to how we are structured, to what tools, resources and technology are available that may help us do the job better. Under Secretary Perdue's leadership, we have realigned with the Farm Service Agency and the Risk Management Agency under the new Farm Production and Conservation Mission area, to ensure a seamless and customer-focused experience for the farmers, ranchers and forest stewards we serve. We want our customer service to be the absolute best it can be, and ensure our systems, practices and programs are relevant, impactful, and deliver on our mission, now and into the future.

Harnessing the Power of Partnership

Nothing we do would be possible without partnerships and we are continuing to develop a network across state lines and national borders, across industries and agencies, and across the public and private sector that enable us to deliver results for farmers for conservation and for the American people. Working together we achieve results that could never have been realized on our own.

We serve our customers because our customers serve America. Our customers are feeding families in this country and around the world. The improvements they're making are protecting our soils, our air and our water supply for the future. Producers will continue to do what they do best and NRCS will continue to support them in those efforts.

Leonard Jordan
Acting Chief
Natural Resources Conservation Service

SECTION 1: MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The Management's Discussion and Analysis (MD&A) serves as a high-level overview for the year ended September 30, 2018 of financial and non-financial performance for the Natural Resources Conservation Service (NRCS), an agency of the United States Department of Agriculture (USDA).

Mission and Organizational Structure

Mission Statement

"NRCS improves the health of our Nation's natural resources while sustaining and enhancing the productivity of American agriculture. We achieve this by providing voluntary assistance through strong partnerships with private landowners, managers, and communities to protect, restore, and enhance lands and waters upon which people and the environment depend".

As described in the Mission Statement, NRCS works with landowners and producers on America's working farm and ranch lands to identify, document and correct environmental concerns in a way that maintains a sustainable, highly productive agricultural land base, improves the economic viability of rural communities, improves the nation's water quality and quantity, and restores or enhances wildlife habitat through efficient and effective management of the nation's non-federal agricultural crop, hay, forest, and grazing lands.

Major Program and Business Lines

NRCS provides technical and financial assistance to landowners to fulfill its mission. This assistance is delivered through one overarching major program that supports the strategic goal of "Getting More Conservation on the Ground". This goal is delivered through six business lines. Business lines are groupings of similar products and services that NRCS employees deliver under the single strategic goal. These six business lines account for all agency discretionary and mandatory programs within the Statement of Net Cost.

1. **Conservation Planning and Technical Assistance** results in the transfer of data, information, or a conservation plan that helps customers protect and conserve natural resources (soil, water, air, plant, animal, and energy) within their social and economic interests. The planning process identifies natural resource problems and opportunities. Additionally, the process determines objectives, inventories resources, analyzes data, and formulates and evaluates alternatives.

2. **Natural Resources Inventory** is the acquisition and development of natural resource data and information for planning, decision making, and program and policy development at multiple scales. This includes strengthening cooperation with other federal agencies, state agencies, and partners to collect natural resource data. Data is utilized at varying scales and compatible with data generated by other entities.

3. **Natural Resources Assessment** is the interpretation and delivery of natural resource data and information for planning, decision making, and program and policy development at multiple scales. This includes strengthening cooperation with other federal agencies, state agencies, and partners to collect natural resource data. Data is utilized at varying scales and compatible with data generated by other entities.

4. **Natural Resources Technology Transfer** acquires, develops, evaluates, and transfers conservation tools, techniques, and standards based on research and new technologies. It includes the production and delivery of technical tools used in resource assessment, conservation planning and implementation, conservation standards and guidance documents, and their development and delivery.

5. **Conservation Operations** are the ongoing cyclical activities involved in managing NRCS to fulfill the mission of getting conservation on the ground. It includes information technology, human resources and services, and financial and operational management. NRCS works to increase reliability and productivity of agency resources and operations to deliver conservation.

6. **Conservation Implementation** assists operators and landowners in installing conservation treatments, management measures, and management systems that result in improved treatment of resources. Implementation of landscape scale approaches and adoption of reengineered processes enhance implementation effectiveness by getting enough conservation applied on the land in a geographic unit to achieve measurable improvements and meet the needs of individuals and local groups. Conservation implementation includes environmental improvement payments and monetary incentives through program contracts, easements, or other means to qualified participants in authorized NRCS conservation programs. Financial assistance helps motivate producers to treat natural resource problems and help sustain natural resources.

   Business lines one through five are supported by our three major discretionary programs: Conservation Operations, Watershed and Flood Prevention, and Watershed Rehabilitation Programs. Business line six is supported by the Farm Bill Conservation Programs (see Note 1A of the financial statements for a discussion of major programs).

Organizational Structure

NRCS operates under the direction of the USDA Under Secretary for Farm Production and Conservation. The NRCS mission is carried out across four Regions (which cover all fifty states, the Caribbean, and Pacific Basin Areas), three National Technology Support Centers, and nine National Centers.

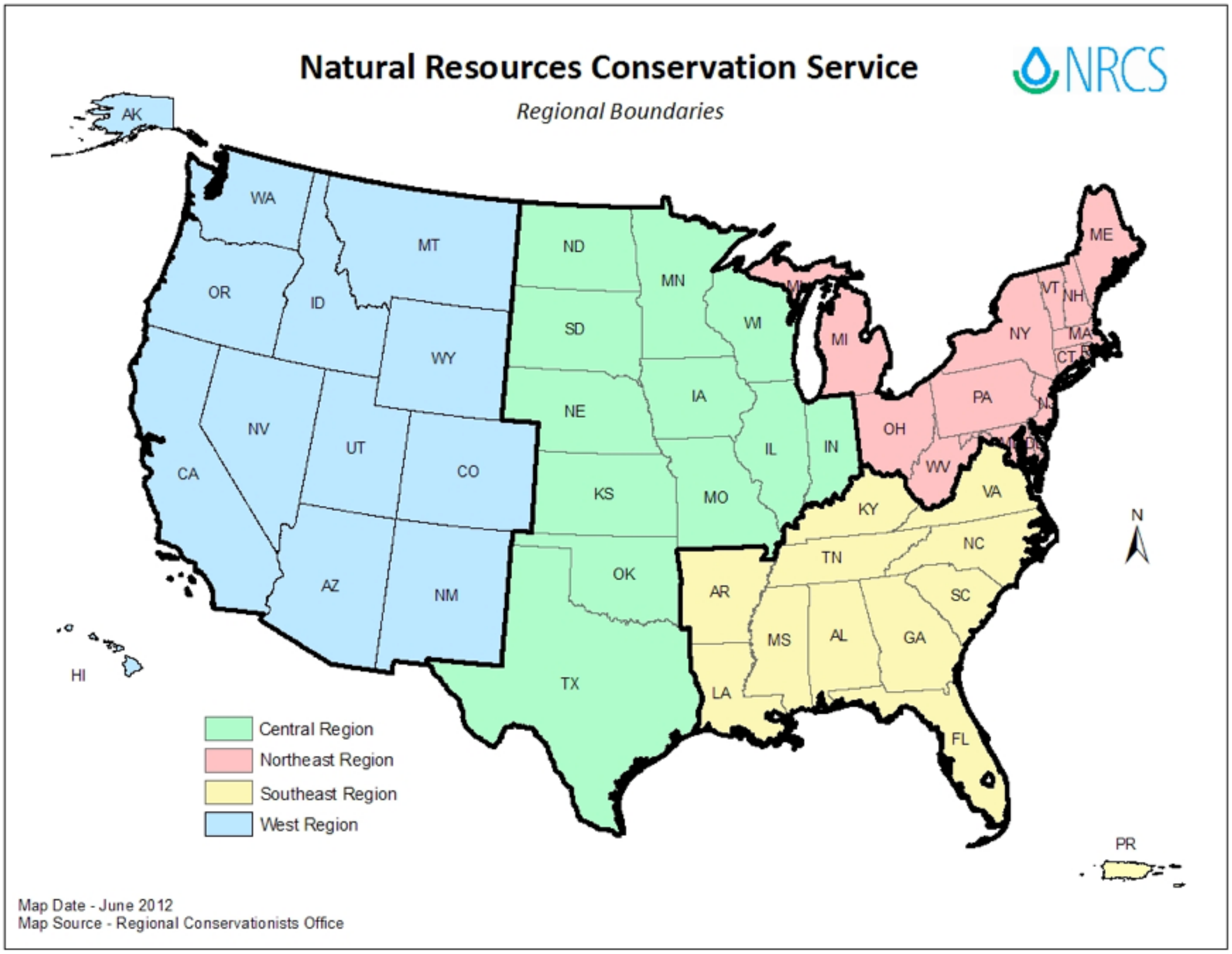

Table 1: NRCS Organizational Map of Regions

NRCS is a line and staff organization from the Field office through the State Conservationist to the Regional Conservationist, and to the Chief. The four Regions are organized geographically as Northeast, Southeast, Central, and West. At Headquarters there are two Associate Chiefs, one for Operations and one for Conservation. The Associate Chief for Operations supervises Chief Information Officer, Chief Financial Officer, Chief Human Resources Officer, Chief Procurement and Property Officer, Deputy Chief for Strategic Planning and Accountability, Enterprise Business Initiatives and Administrative Enterprise Business Initiatives. The Associate Chief for Conservation supervises the Deputy Chief for Soil Science and Resource Assessment, Deputy Chief for Programs, Deputy Chief for Science and Technology, Director of Strategic Natural Resources Initiatives, Director of Gulf Ecosystems, and Director of Public/Private Partnerships.

NRCS
Natural Resources Conservation Service

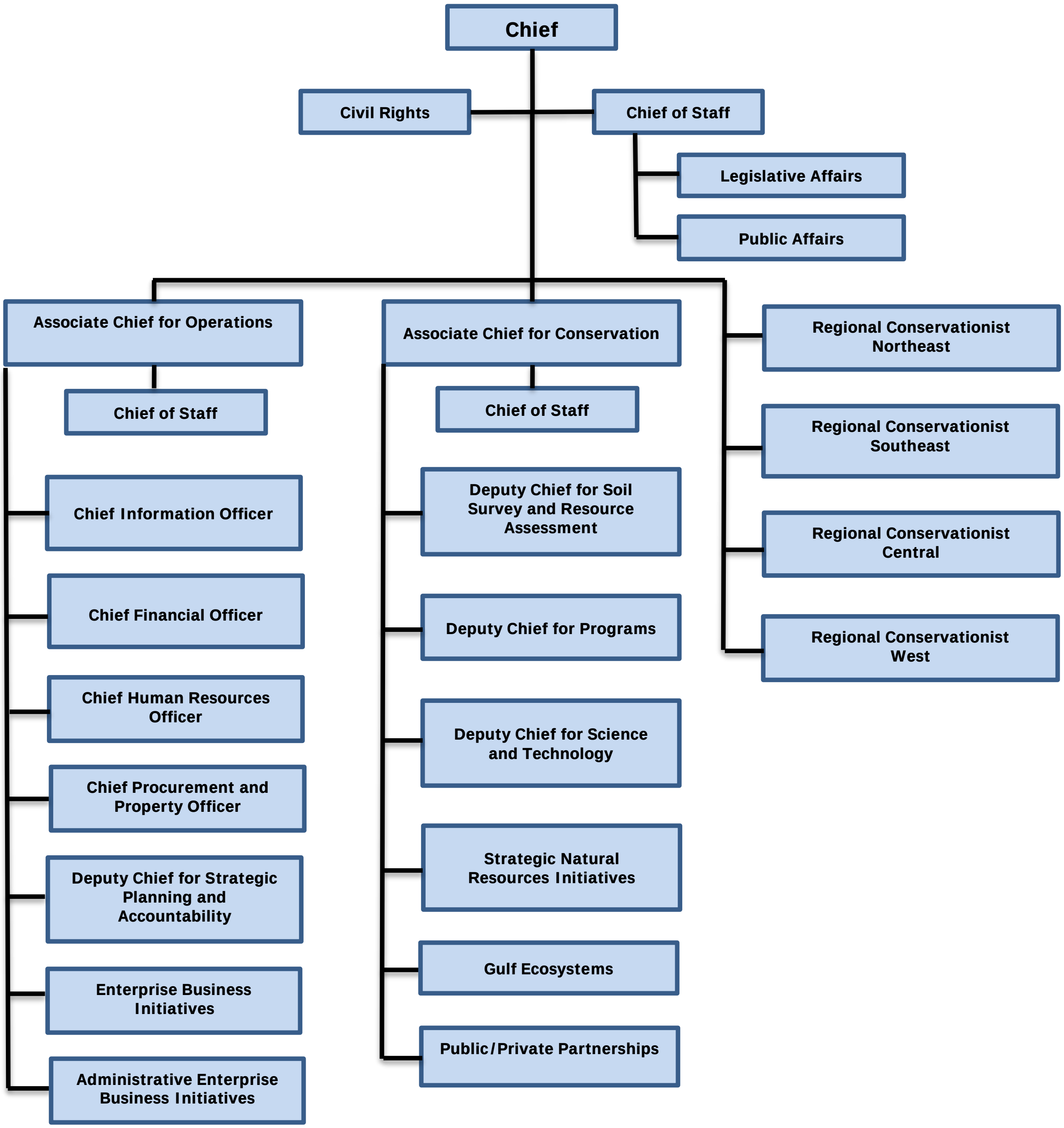

Table 2: NRCS Organizational Chart as of September 30, 2018

Strategic Planning and Accountability Framework

The Strategic Planning and Accountability framework includes three major functional components: planning the work (strategically and annually), managing the work, and evaluating the work completed. The work is inclusive of two major components – the actual activities to be conducted and the funding used to do them. It is an ongoing cyclical process. The Annual Performance Measures, as outlined in the Annual Budget, are tied directly to the Strategic Plan measures, and tracked through the Accountability Information Management System (AIMS). AIMS components include tools to collect performance data, program data, workload data, and time cost allocation. The Performance Results System (PRS) is the performance measurement component of AIMS, which mines on-the-ground data from the Natural Conservation Planning database, Customer Service Toolkit, and the Program Tracking System (ProTracts). It also summarizes information based on business rules and queries reviewed, calculated, and locked on an annual basis.

All functionality in the Strategic Planning and Accountability Framework is undergoing significant investment to provide continued improvement in employee engagement, accountability, performance, and efficiency.

Maximizing Agency success requires adaptive management strategies to include systematically and accurately assessing and improving work processes. Key features of adaptive management require a feedback system to improve conservation solutions and monitor success in order to achieve efficient investments in conservation. The feedback system that NRCS uses includes performance measures, program evaluation methods, and connecting scientific evidence to conservation outcomes. The key components of the strategy for measuring and evaluating programs include:

- Developing a variety of performance measures and performance metrics that align with the purpose and success factors of the program;
- Monitoring evidence of efficient program design and results (outputs and outcomes) on a regular basis;
- Developing, maintaining, and auditing internal controls for major program compliance; and
- Making evidence based and targeted program improvements on an ongoing basis.

Performance Goals, Objectives, and Results

NRCS' core mission is delivered through four strategic goals and two management initiatives:

Strategic Goals

1. Deliver High-Quality Science and Technology for Voluntary Private Lands Conservation;
2. Promote Productive Working Lands and Waters;
3. Protect and Enhance Productive Agricultural Landscapes; and
4. Support Healthy Watersheds and Diverse Land Use and Communities.

Management Initiatives

1. Increase Organizational Effectiveness and Efficiency; and
2. Create a Climate of Diversity and Inclusion Where Private Lands Conservation Will Thrive.

Strategic Goals/Management Initiatives, Strategic Objectives and Performance Measures

These goals encompass all Agency investments and impacts, as reflected in the Statement of Net Cost. The NRCS strategic goals directly support USDA Strategic Goal 5: Strengthen the stewardship of private lands through technology and research.

Strategic Goals/Management Initiatives	Strategic Objectives	Performance Measures
Goal 1: Deliver high-quality science and technology for voluntary private lands conservation	Enhance conservation planning with science-based tools and information	Technical standards created or revised to ensure inclusion of latest science and technology
Goal 2: Promote productive working lands and healthy waters	Improves soil health, productivity, diversity, and resilience Enhance and restore water quality and water quantity Provide habitats for diverse and important fish and wildlife species Improve local air quality and increase carbon sequestration	Cropland with conservation applied to improve soil quality Non-federal lands with conservation applied to improve fish and wildlife habitat quality Land with conservation applied to improve water quality Grazing and forest lands with conservation to protect and improve the resource base
Goal 3: Protect and enhance productive agricultural landscapes	Keep productive agricultural lands in farming, ranching, and forest landscape Protect and manage wetland resources to create landscape scale benefits	Land protected by conservation easements
Goal 4: Support healthy watersheds and diverse land use communities	Protect communities and individuals through rehabilitated watershed structures Manage landscape-scale natural resource concerns to create enduring solutions	Number of watershed rehabilitation supplemental plans authorized Number of dam rehabilitations to be completed Land with conservation to improve water quality
Management Initiative 1. Increase organizational effectiveness and efficiency	Strengthen and modernize the delivery of products and services Advance financial management capabilities	Contract implementation ratio Conservation quality ratio
Management Initiative 2. Create a climate of diversity and inclusion where private lands conservation will thrive	Expand opportunities to deliver conservation products and services to new and underserved customers Employ, develop, and retain a highly skilled and diverse workforce	Percent regulatory compliant findings on civil rights reviews Percent parity in program application and approval rates

Table 3: NRCS Strategic Plan FY 2016-2018

The strategic plan identifies Strategic Objectives for each Strategic Goal, which are tracked annually using Key Performance Measures (KPM). The KPMs are tracked separately by program for a total of five annual targets. KPMs provide a direct indication of progress in achieving the Strategic Plan measures identified for the NRCS Strategic Goal. They are also used in the Budget and Annual Performance Plan and reported in the MD&A. The long-term Strategic Performance Measures and the annual KPMs are shown below and are excerpted from the NRCS 2016-2018 Strategic Plan Implementation & Appendices.

Performance Goals and Results

The following table displays NRCS' key performance measure accomplishments. The KPMs in the first column are the USDA measures from USDA Strategic Goal 5: Strengthen the stewardship of private lands through technology and research.

USDA Objective	Key Performance Measure	Trend[1]				As of September 30, 2018		
		FY 2014	FY 2015	FY 2016	FY 2017	Target	Actual	Result[2]
5.2 Promote Productive Working Lands	Soil carbon retained on cropland to improve yields and sequester carbon (thousand tons)	N/A	N/A	140	179	140	Deferred[3]	Deferred[3]
	Cropland with conservation applied to improve soil quality, Conservation Technical Assistance (CTA) – (millions of acres)	6.2	6.0	6.0	5.9	5.9	6.0	Met
	Cropland with conservation applied to improve soil quality, Environmental Quality Incentive Program (EQIP) – (millions of acres)	3.1	3.0	2.8	3.0	3.0	3.1	Met
	Tons of sediment prevented from leaving cropland and entering waterbodies (million tons)	N/A	N/A	4.6	4.8	4.6	Deferred[3]	Deferred[3]
5.3 Enhance Productive Agricultural Landscapes	Working lands protected by conservation easements (thousand acres)	N/A	83.2	75.7	60.7	101	Deferred[3]	Deferred[3]

1. **The sources of data for all performance measures are the National Planning and Assessment Database and the Performance Results System.**
2. **Rationale for Met Range: Estimated performance October 1, 2017 through September 30, 2018. Data assessment metrics to meet the target allow for an actual number in the range of 90% - 110% of the target.**
3. **FY 2018 performance data will be available at the end of the first quarter of FY 2019.**

Table 4: Performance Scorecard for FY 2018 – Trends, Targets, and Results

Performance Data Verification and Validation

NRCS regularly collects program performance data through a variety of data collection tools, processes, and related software that provides information on a routine basis to support the agency's strategic and performance planning, budget formulation, workforce planning, and accountability activities. NRCS tracks and evaluates field and state level conservation planning efforts and practice implementation through the PRS, except for easement program data which are tracked through the National Easement Staging Tool (NEST). The data source for the modeled aspects of the performance data is Conservation Effects Assessment Project (CEAP) surveys.

- **Completeness of Data –** The reported performance measures are based on data reported from October 1, 2017 through September 30, 2018. Numerous data quality mechanisms within PRS ensure the completeness of each performance record entry. Each performance record must adhere to a set of quality assurance requirements during the upload process. Business rules, definitions, and internal controls enforce accountability policies or business requirements and diagnose potential entry errors. Error reports are generated for managers at multiple levels to review for completeness or rejected entries, including the Strategic Planning and Accountability Deputy Area staff. On an annual basis, the State Conservationists certify that the data is complete and accurate. The conservation data from the National Planning and Agreements Database (NPAD) is then fed into a model to estimate the carbon and sediment retained. The model can provide estimates for thirty-nine percent of cropland conservation practices applied and fifty-six percent of the acres addressed with a conservation practice.

- **Reliability of Data –** The data reported for performance measures was determined within PRS based on information validated and received from NPAD and ProTracts. Conservation plans are developed in consultation with the customer, created with the Customer Service Toolkit, and warehoused in the NPAD. Applied conservation practices are date-stamped, geo-referenced, and linked to employee identification, enabling detailed quality assurance reviews. Periodic reviews are conducted by state office and headquarters personnel to assess the accuracy of reported data. The modeled aspects of the performance data have reliability estimates based on the statistical reliability of the National Resource Inventory (NRI).

- **Quality of Data –** The data is reported by field staff located where the conservation is occurring. Field staff are trained and skilled in conservation planning and application suited to the local resource conditions. Error checking enhancements and reports within the PRS application maintain data quality by allowing users at local, state, and national levels to monitor data inputs. NRCS designates key personnel, at both the state and national levels, to conduct quality assurance reviews periodically throughout the year to ensure the data is reliable and accurate. At the end of the fiscal year, each State Conservationist signs and certifies that PRS data is valid, complete, and reliable. The data quality of modeled aspects of the performance data are based on the scientifically peer-reviewed modeling procedures and protocols.

- **Linking Performance to Programs –** To ensure program accountability and evaluate program efficiency, data on performance measures for conservation applied must be linked to the program that funded the staff time needed to carry out each activity.

- **Limitations Associated with Performance Management Reporting –** Problems with performance management reporting are typically caused by errors in data entry. NRCS developed several software controls within PRS to ensure such errors are minimized.

Analysis of Entity's Financial Statement and Stewardship Information

NRCS produces four principal financial statements on a quarterly basis to summarize the activity and associated financial position of the agency:

- Balance Sheet;
- Statement of Net Cost;
- Statement of Changes in Net Position; and
- Statement of Budgetary Resources.

NRCS strives to provide relevant, reliable, and accurate financial information related to agency activities. The following tables reflect the comparative amounts as of September 30, 2018 and September 30, 2017.

Assets

NRCS reported approximately $11.2 billion in assets as of September 30, 2018, representing an increase of nine percent compared with assets reported as of September 30, 2017.

Assets (in millions)	FY 2018	FY 2017	Difference	Difference (Percentage)
Fund Balance with Treasury	$11,036	$10,072	$964	10%
Accounts Receivable	9	9	0	0%
Total Intragovernmental	**$11,045**	**$10,081**	**$964**	**10%**
Accounts Receivable, Net	4	3	1	33 %
General Property, Plant and Equipment, Net	75	78	(3)	(4)%
Advances to Others	36	41	(5)	(12)%
Total Assets	**$11,160**	**$10,203**	**$957**	**9%**

Table 5: Assets

Fund Balance with Treasury (FBwT) is an asset account that represents the amount in the agency's accounts with Treasury that is available only for the purposes for which the funds were appropriated, as discussed in Statements of Federal Financial Accounting Concepts (SFFAC) 2, Paragraph 84. According to SFFAC 2, FBwT is the aggregate amount for which the agency is authorized to make expenditures and pay liabilities. This account includes general funds, which are funds appropriated by Congress, clearing accounts, funds transferred from the Commodity Credit Corporation (CCC) using borrowing authority, a revolving fund, and a trust fund. The account increased $964 million compared to last year because of increases in funding for the Emergency Watershed Protection Program in the Watershed and Flood Prevention Operations account to mitigate damage caused by hurricanes, wildfires, and other natural disasters that occurred last year. There was also $306 million in carryover and new funding for the Farm Bill conservation programs. NRCS also has extended disbursing authority for the Farm Bill conservation programs to liquidate obligations incurred in the years for which the funds were available.

The balance of public accounts receivable increased slightly because of a decrease in the allowance for doubtful accounts. The decrease in advances to others is because of a review of large dollar advances, many of which were liquidated because the period of performance had expired.

Liabilities

NRCS reported approximately $1.4 billion in liabilities as of September 30, 2018, which is an increase of eleven percent compared to the same period in FY 2017. The major liability amounts are provided in the table below.

Liabilities (in millions)	FY 2018	FY 2017	Difference	Difference (Percentage)
Intragovernmental Liabilities	$45	$58	$(13)	(22)%
Accounts Payable	32	36	(4)	(11)%
Federal Employee and Veterans' Benefits	42	40	2	5%
Other	1,249	1,094	155	14%
Total Liabilities	**$1,368**	**$1,228**	**$140**	**11%**

Table 6: Liabilities

The decrease in intragovernmental liabilities reflects paying off some large obligations with USDA related to technology services. The decrease in accounts payable is attributable to more timely payment of invoices related to the Conservation Operations and Environmental Quality Initiatives programs. The increase in nonfederal liabilities is the result of an improved process implemented during the year to more accurately estimate expenses at the end of the period.

Net Position

NRCS reported a net position of approximately $9.8 billion as of September 30, 2018, representing an increase of nine percent over the same period in FY 2017. Net position represents unexpended appropriations consisting of undelivered orders as well as unobligated funds, and the cumulative results of operations.

Net Position (in millions)	FY 2018	FY 2017	Difference	Difference (Percentage)
Unexpended Appropriations	$1,773	$1,151	$622	54%
Cumulative Results of Operations	8,019	7,824	195	3%
Total Net Position	**$9,792**	**$8,975**	**$817**	**9%**

Table 7: Net Position

The increase in unexpended appropriations of 54 percent from FY 2017 is related to the increase in new appropriations mentioned above for the Emergency Watershed and Watershed Protection and Flood Prevention Operations programs compared to last year.

Net Cost of Operations

NRCS's net cost of operations was approximately $4.3 billion as of September 30, 2018, representing an increase of eleven percent compared to the same period in FY 2017.

Net Cost of Operations (in millions)	FY 2018 (Unaudited)	FY 2017 (Unaudited)	Difference	Difference (Percentage)
Gross Costs	$4,302	$3,914	$388	10%
Less: Total Earned Revenue	40	64	(24)	(38)%
Total Net Cost of Operations	**$4,262**	**$3,850**	**$412**	**11%**

Table 8: Net Cost of Operations

Gross costs increased ten percent compared to last year because of a revised methodology for estimating year end expenses. Earned revenues decreased 38 percent over the past twelve months primarily due to a reduction in reimbursable activity for the Small Watershed Operations program.

Budgetary Resources

Total budgetary resources were approximately $10.2 billion as of September 30, 2018, representing an increase of eight percent from September 30, 2017.

Budgetary Resources (in millions)	FY 2018 (Unaudited)	FY 2017 (Unaudited)	Difference	Difference (Percentage)
Budgetary Resources	$10,192	$9,437	$755	8%

Table 9: Budgetary Resources

Budgetary resources are slightly higher than last year because of the increases in appropriations for the Emergency Watershed Protection Program and Environmental Quality Incentives Program, and the carryover of unobligated funding from FY 2017.

Analysis of Entity's Systems, Controls, and Legal Compliance

The Federal Managers' Financial Integrity Act (FMFIA) requires ongoing evaluation of internal controls and financial management systems. These evaluations lead to an annual statement of assurance that:

- Obligations and costs comply with applicable laws and regulations;
- Federal assets are safeguarded against fraud, waste, abuse and mismanagement;
- Transactions are accounted for and properly recorded; and
- Financial management systems conform to standards, principles and other requirements to ensure that Federal managers have timely, relevant and consistent financial information for decision-making purposes.

NRCS evaluated its internal controls over financial reporting in accordance with Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.

NRCS operates a comprehensive internal control program. All NRCS managers must ensure that their programs operate efficiently and effectively and comply with relevant laws. They must also ensure that financial management systems conform to applicable laws, standards, principles, and related requirements. In conjunction with the Office of Inspector General and the Government Accountability Office, USDA's management works decisively to determine the root causes of its deficiencies so that it can direct resources to focus on their remediation.

NRCS remains committed to reducing and eliminating the risks associated with its deficiencies. It also strives to efficiently and effectively operate its programs in compliance with FMFIA, the Federal Financial Management Improvement Act (FFMIA), and other applicable laws and regulations.

FY 2018 Financial Statement Audit Report Results

In FY 2018, KPMG LLP, an independent auditing firm, was engaged to audit the financial statement of NRCS. The auditors issued an Unmodified Opinion on the Balance Sheet.

Professional auditing standards require the reporting of material weaknesses and/or significant deficiencies identified during the execution of the audit. The deficiencies reported herein were identified during the FY 2018 audit.

- Improved Accounting and Controls are Needed over Obligations and Delivered Orders; and
- Improved Accounting and Controls are Needed over Expenses

One non-compliance with laws and regulations was identified. NRCS is non-compliant with the Federal Financial Management Improvement Act of 1996 with regard to applicable federal accounting standards and the United States Standard General Ledger (USSGL) at the transaction level.

Summary of Audit Recommendations

NRCS management has dedicated significant resources to remediate and close all audit findings. The following table provides a summary of prior year audit recommendations.

Deficiency	Weakness Category	Status	Target Completion Date
Undelivered Orders	Material Weakness	Repeat Condition	9/30/2019
Expenses	Material Weakness	Repeat Condition	9/30/2019
Non-Compliance with the Federal Financial Management Improvement Act	Non-Compliance with Laws and Regulations	Repeat Condition	9/30/2019

Table 10: Open Audit Recommendations

Remediation Activities

NRCS completed the following accomplishments during FY 2018 to address prior year material weaknesses:

- Implemented a statistically valid corporate accrual methodology to estimate and record the accrual for agreements and contracts instead of relying on program manager requests for individual accruals for these items;
- Implemented a change in FMMI master data to more clearly identify valid upward and downward adjustments;
- Re-engineered the process for reviewing data files to ensure that invalid upward and downward adjustments are identified and negated in a timely manner;
- Improved the transparency of recording and liquidating obligations by utilizing new systems, such as the use of ezFedGrants and ServiceNow; and
- Implemented a confirmation process, including negative confirmations, for all divisions to ensure all direct-entry expense accruals for items not included in the corporate accrual are recorded.

NRCS plans further remediation activities in FY 2019, including:

- Enhance the processes and NRCS feeder systems to improved monitoring of activity in U.S. Standard General Ledger (USSGL) 4871 and 4881; and
- Continue to improve the transparency of recording and liquidating obligations by utilizing new systems, such as the use of ServiceNow.

Management Assurances

NRCS assessed its financial management systems and internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations, in accordance with Departmental guidelines and as required by the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA) as of September 30, 2018. This assessment included the safeguarding of assets and compliance with applicable laws and regulation. As a result of this assessment, two material weaknesses, two financial system non-conformances and one instance of non-compliance with laws and regulations were noted. Therefore, NRCS is providing modified assurance that NRCS's systems of internal control comply with FMFIA and FFMIA. The details of these deficiencies are provided in the sections below.

Internal Controls over Financial Reporting

The Office of Management and Budget Circular A-123 requires federal managers to develop and maintain an effective system of internal controls to provide assurance that significant weaknesses in the design or operation of internal control that could adversely affect the agency's ability to meet its objectives would be prevented or detected in a timely manner.

FMFIA requires agencies to establish internal controls and financial systems that provide reasonable assurance that three objectives of internal control are achieved:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations.

FMFIA, Section 4, requires the agency head to provide a separate statement of assurance on the agency's accounting system's conformance with General Accountability Office (GAO) principles and standards. NRCS relies in part on USDA's Statement of Assurance as it relates to internal controls related to its general ledger system, Financial Management Modernization Initiative (FMMI).

NRCS completed an assessment of the effectiveness of internal controls over operations, financial reporting and management systems for FY 2018. This assessment included an evaluation of entity level controls, risk assessments, process narratives and flowcharts, documentation of key controls, an assessment of the design of key controls, tests of operating effectiveness of properly designed controls, a summary of deficiencies, and the development of corrective action plans for control deficiencies. Key controls in the following business processes were identified and reviewed:

- Budget Authority;
- Budget Transfers;
- Fund Balance with Treasury;
- Reimbursable Agreements – Authorization/Modification, Receivable and Payment Management, and Closeout;
- Period End Reporting;
- Unliquidated Obligation Review;
- User Access to ProTracts, WebTA and FMMI;
- Personnel and Payroll Master File Maintenance;
- Time and Attendance
- Easements – Awards, Rights Transfer, Monitoring, Restoration, and Closeout;
- Grants and Agreements (ProTracts and non-ProTracts) – Awards/Modifications, Draws and Expenditures, Monitoring, and Closeout;
- Relocation Allowance;
- Fleet Card Monitoring;
- Purchase Card Monitoring;
- Travel Card Monitoring;
- Conference Planning and Reporting;
- Personal Property – Acquisitions, Depreciation/Impairment, Retirements/Disposals/Transfers and Physical Inventory;
- Disbursements within FMMI;
- Procurement – Accounts Payable, Awards and Closeout; and
- Leasing – Real Property.

The following table outlines the deficiencies noted to date and the status of the corrective action plans.

Process	Deficiency Area	Weakness Category (MW/SD/CD) [1]	Year Identified	Original Estimated Completion Date	Revised Completion Date	Actual Completion Date
Section 2:						
Financial Reporting	Obligations/Unliquidated Obligations	MW	2013	9/30/2014	9/30/2019	N/A
Financial Reporting	Expenses/Accrued Expenses	MW	2015	9/30/2016	9/30/2019	N/A
1. Weakness Categories: MW = Material Weakness; SD = Significant Deficiency, CD = Control Deficiency						

Table 11: Deficiency and Corrective Action Plan Status

Federal Financial Management Improvement Act (FFMIA) of 1996

FFMIA is designed to improve financial and program managers' accountability, provide better information for decision making and improve the efficiency and effectiveness of Federal programs. FFMIA requires that financial management systems provide reliable and consistent disclosure of financial data in accordance with Generally Accepted Accounting Principles and Standards (GAAP). These systems must also comply substantially with (1) Federal Financial Management System requirements; (2) applicable Federal accounting standards; and (3) the U.S. Standard General Ledger (USSGL) at the transaction level.

During fiscal year 2018, NRCS evaluated its financial management systems to assess compliance with FFMIA. Professional auditing standards require the reporting of material weaknesses and/or significant deficiencies identified during the execution of the audit. The deficiencies reported herein were identified during the FY 2018 audit.

NRCS is not compliant with Federal accounting standards and the USSGL at the transaction level as of September 30, 2018. The following items were not properly recorded in accordance to Federal accounting standards and the USSGL:

- Obligations incurred, including accrued expenses and undelivered orders; and
- Recoveries of prior year unpaid obligations.

The following table outlines the previous deficiencies noted and the status of the corrective action plans for the year ended September 30, 2018.

Deficiency	Year Originally Identified	Original Estimated Completion Date	Revised Estimated Completion Date
Non-Compliance with Federal Accounting Standards	2008	7/31/2009	9/30/2019
Non-Compliance with USSGL	2008	7/31/2009	9/30/2019

Table 12: FFMIA Table of Deficiencies and Status of Corrective Action Plans

Compliance with Laws and Regulations

As discussed above, NRCS is not compliant with FFMIA. The chart below provides additional details regarding NRCS's compliance with laws and regulations.

Audit Finding	Year Originally Identified	Original Estimated Completion Date	Revised Estimated Completion Date
Non-Compliance with FFMIA	2008	7/31/2009	9/30/2019

Table 13: Non-Compliance with Laws and Regulations and Status of Corrective Action Plans

Federal Information Security Modernization Act (FISMA) of 2014

FISMA provides the framework for securing Federal Government information technology. Departments covered by the Paperwork Reduction Act must implement the requirements of FISMA, reporting annually to OMB and Congress on the effectiveness of the agency's security programs and Office of Inspector General evaluations. NRCS's security deficiencies are tracked in the FISMA Plan of Actions and Milestones (POAM), which is updated monthly and reported to USDA quarterly for inclusion in its FISMA report to OMB.

NRCS took a number of actions to improve information security during FY 2018, including:

- Assessing 37 information systems to ensure compliance with FISMA requirements;
- Ensuring 30 systems attained Authority to Operate (ATO);
- Remediating approximately 146 Plan of Actions and Milestones (POA&Ms);
- Updating and enforcing security standard operating procedures for all NRCS information systems;
- Reviewing proposed changes to information systems and applications to determine the impact on the security posture;
- Vulnerability assessment scanning of NRCS systems on a routine and ad-hoc basis to ensure compliance and to identify opportunities to reduce risk;
- Assisting project and portfolio management and software development teams with vulnerability remediation measures for cloud, web, and Federal applications/systems; and
- Deploying and managing security tools to identify, protect, detect, respond, and recover NRCS applications/systems.

Inspector General Act Amendments of 1988

The Inspector General Act requires management to complete all final actions on audit recommendations within one year of the date of the Inspector General's final audit report. As of September 30, 2018, there are two audits for which final action has not yet been completed in accordance with the act, one of which involves multiple USDA agencies and for which the remaining corrective actions do not involve NRCS.

GAO/OIG Active Audits

The summary of GAO/OIG active audits for the year ended September 30, 2018 provides an overview of the external audit activities in progress within NRCS. After the final report has been provided to the agency, NRCS may have several audit recommendations to complete before the audit is officially closed.

Active Audit Number/Name	Start Date	Final Report Date
OIG – NRCS Equitable Relief (ER) – 10601-0001-31	8/7/2018	1
OIG – Agriculture Conservation Enhancement Program – 10601-0007-31	8/1/2018	1
OIG – FY 2018 Financial Statement Audit	3/6/2018	1
OIG – USDA's Fiscal Year 2017 Compliance with Improper Payment Requirements –50024-0013-11	12/18/2017	5/10/2018
OIG – Adjusted Gross Income Compliance Verification Process – 50024-0003-22	12/5/2017	1
OIG – Annual Forage Program and Follow Up on Pasture, Rangeland, Forage Program Recommendations – 05601-0006-31	11/29/2017	1
OIG – Environmental Quality Incentives Program (EQIP) Payment Schedules – 10601-0005-31	8/17/2017	1
OIG – NRCS Balance Sheet for FY 2017 – 14101-0009-11	3/7/2017	11/17/2017
OIG – Controls Over Conservation Innovation Grants – 10099-0001-23	2/7/2017	9/11/18
OIG – EO 13520, Reducing Improper Payments, High-Dollar Overpayments Report Review for Fiscal Year 2015 – 50024-0012-11	1/26/2017	9/27/2017
OIG – NRCS Balance Sheet for FY 2016 – 10401-0007-11	5/5/2016	11/14/2016
OIG – Fiscal Year 2018 Federal Information Security Management Act (FISMA) – 50501-0018-12	12/1/2017	1
OIG – NRCS Conservation Stewardship Program – 10601-0001-32	10/25/2013	9/27/2016
OIG – NRCS Conservation Easement Compliance – 10601-0002-31	5/28/2013	7/30/2014
OIG – NRCS Regional Conservation Partnership Program Controls, Interim (2) – 10601-0004-31	9/08/2017	11/13/2017
OIG – NRCS Regional Conservation Partnership Program Controls – 10601-0004-31	9/12/2016	6/28/2018
OIG – Fiscal Year 2017 Federal Information Security Management Act (FISMA) – 50501-0015-12	3/1/2016	10/31/2017
OIG – Coordination of USDA Farm Program Compliance – FSA, RMA, and NRCS – 50601-0003-22	10/2/2014	1/17/2018
OIG – Fiscal Year 2016 Federal Information Security Management Act (FISMA) – 50501-0012-12	3/1/2016	11/9/2016
OIG – Reviewing the Integrity of USDA's Scientific Research Program – 50601-0006-31	3/23/2016	2/28/2018
GAO – Reducing Nutrient Pollution – 101099	9/19/2016	1
GAO – USDA's EQIP Could Be Improved to Optimize Benefits – 100307 (GAO-17-225)	9/17/2015	5/15/2017
GAO – Compliance with Improper Payments and Elimination and Recovery Act of 2010 (IPERA) – 100948 (GAO-17-484)	9/19/2016	6/13/2017
GAO – Puget Sound Restoration Efforts – 101196	11/22/2016	7/19/2018
GAO - Long Island Sound Restoration Efforts – 101350	2/1/2017	7/12/2018
GAO – San Francisco Bay Watershed Restoration Efforts – 101963	5/5/2017	1
GAO – Assessing Technologies on Water Supplies – 102103	6/27/2017	1
GAO – Offshore Oil Spill Response – 102207	9/6/2017	1
GAO – Federal Efforts in Environmental Justice – 102432	11/15/2017	1
GAO – Federal Actions to Promote Bee Health – 361600 (GAO-16-220)	9/25/2014	3/11/2016
1: Audit in progress and final report release is pending.		

Table 14: GAO/OIG Active Audits Summary

Streamlining Conservation Delivery

In early 2009, NRCS initiated the Conservation Delivery Streamlining Initiative (CDSI) with the purpose of implementing a more effective, efficient, and sustainable business model for delivering conservation (both technical and financial assistance) across the nation. The CDSI has three objectives:

- Simplify Conservation Delivery – The new business model will be easier for customers and employees;
- Streamline Business Processes – New streamlined business processes will increase operating efficiency and deliver technical and financial assistance in a fully integrated manner; and,
- Ensure Science-based Assistance – The new business model will enhance the ability to deliver science-based products and services.

CDSI is organized and staffed in the Office of NRCS's Associate Chief for Operations to ensure an integrated approach rather than a stove-piped Agency wide approach. CDSI staff will implement five major initiatives between now and FY 2023 that will allow field staff to:

- Spend as much as 75 percent of their time in the field with clients;
- Minimize duplicate or excessive data entry for staff and clients;
- Reduce administrative workload burden from field partners;
- Provide customer web enabled access to USDA conservation programs;
- Ensure sound conservation plans;
- Support all financial assistance; and,
- Significantly shorten the administrative time for program delivery and strengthen financial management of Farm Bill programs.

During 2012, NRCS conducted two major pilot efforts to evaluate streamlined and standardized business processes, as well as prototype business tools to implement those processes. These pilots included: (1) an evaluation of Conservation Client Gateway, a web based portal, in eight states that allowed customers to work with NRCS 24 hours a day and seven days a week, apply for programs, check on payments, and much more online; and (2) a pilot in 17 states of a new application that provisioned financial assistance support specialists with the Financial Assistance Desktop, an application that automates workflow and business process between clients, NRCS technical staff in the field, and administrative staff, reducing the amount of time technical employees spend on program administration and streamlining program participation for clients. Both pilots were successful in helping to guide the future of a more streamlined, integrated conservation delivery. In addition to significant efficiencies for NRCS staff, CDSI estimates that implementing its streamlined processes and tools will save customers over 750,000 hours per year.

In March 2012, NRCS leadership approved a new strategy to establish program support specialist positions in the states during 2012-2013. This strategy ensures a more consistent organizational approach to performing program administration tasks and removes this non-technical burden from field technical staff. The staff would utilize CDSI applications to ensure consistent streamlined business processes nationwide. In October 2012, NRCS began testing the Conservation Desktop application-version one. NRCS released version one as Beta version to four field offices in March 2013. As a result of the testing and piloting, it was determined by NRCS, and confirmed by an independent assessment, that version 1 of Conservation Desktop should not be released nationally for field use. As a result, NRCS assessed and realigned its strategic path forward for both the Conservation Desktop and the Mobile Planning Tool.

NRCS worked closely with USDA and OMB between May and October of 2013 to finalize the path forward and a revised timeline. In July 2013 the "CDSI Path Forward and Corrective Action Plan" (CAP) was prepared to address lessons learned and to apply best practices as CDSI moves forward. The CAP included:

- Lessons learned and mitigation strategies;
- An improved strategy for a modular development approach that splits Conservation Desktop into smaller, more frequent releases;
- Development of the Conservation Desktop and Mobile Planning Tool (MPT) under one contract;
- Revised planning and baselining of the CDSI investment;
- CDSI action plan for mitigating risks;
- Creation of a CDSI Oversight Board, comprised of NRCS leadership;
- Creation of a CDSI Technical Advisory Team, comprised of state and field-level NRCS employees; and,
- A contract with the Gartner Group for continuous consultation and assessment that has now matured into three contracts for a dedicated program management office, software assurance support, and systems engineering and technical assistance.

NRCS leadership, the USDA Chief Information Officer, and OMB approved the new path forward in September 2013. NRCS completed the design and architecture to support Conservation Desktop and MPT in FY 2016 as part of this path forward. In December 2016, CDSI successfully completed all CAP items and OMB approved closure of the quarterly briefings. CDSI continues to brief USDA OCIO monthly, with reporting to OMB through standard Capital Planning and Investment Control channels.

NRCS made the CDSI Conservation Client Gateway (CCG) available to all clients nationwide in May 2015. CCG is the new public facing web-based application for agricultural producers that allows NRCS customers to:

- Request technical and financial assistance;
- Obtain easy, secure, and intuitive access to their conservation plans, schedules, applications, and contracts;
- Review and electronically sign plans, applications, and contracts; and,
- Document completed practices and request and track payments for them.

NRCS deployed Financial Assistance Tracker as part of a "quick-win" strategy in March 2016 to begin allowing program support assistants to monitor upcoming dates for contract actions. This also allows state and regional supervisors to manage team resources to districts and offices most in need of assistance through real-time, customizable reports.

NRCS conducted a Mobile Device Pilot in 2017 with field conservationists from 16 states across the country to validate mobile device requirements for usage with the MPT. The Pilot completed in July 2017 and the findings were provided to and accepted by NRCS leadership. These prioritized technical device specifications will provide a basis for the selection of a mobile device for inclusion in the requirements for a blanket purchase agreement currently slated for the fall of 2019.

Conservation Desktop's first nationwide incremental release occurred in July 2017 with a full announcement in late August 2017. This integrated release included functionality for technical assistance and financial assistance, with the supporting core services for integration with databases and legacy systems. The release also included:

- The ability to manage preferences, cases, client associations and assistance notes;
- Application functionality such as viewing and selecting geospatial data layers like zooming and panning, as well as practice and planning land units;
- The ability to manage documents related to client eligibility and the application phase of NRCS Farm Bill Programs; and
- Standardized tasking and workflow management for the application phase of NRCS Farm Bill program contracts.

Conservation Desktop's second nationwide incremental release, v.1.2, occurred in December 2017. This release addressed production defects and carryover user stories from the release of v.1.1, in addition to the following new functionality:

- Ability to perform tasks using power of attorney, including requesting technical and financial assistance, reviewing and signing documents, and accessing plans and contracts within CCG;
- Support for business entity clients (e.g. limited liability corporations and partnerships);
- Ability to generate reports on practices, land units, and land use summaries, and update geospatial practice attributes;
- Document management features related to the contract phase of NRCS Farm Bill Programs; and
- Standardized tasking and workflow management for the contract phase of NRCS Farm Bill program contracts.

Conservation Desktop v.2.1 was deployed to production in July 2018, and national training was provided to over 260 participants. This release included:

- Integrated document management and financial assistance tracker functions, which have increased the efficiency of field conservationists and program support assistants, enabling them to access these applications from one user interface;
- The ability for users to certify practices and make, process, and review payments;
- Improvements to Map Labels functionality, including label creation and the ability to annotate layers;
- Document management features related to the certification of practices and NRCS Farm Bill Programs contract payments; and
- Standardized tasking and workflow management for the certification of practices and NRCS Farm Bill Programs contract payments.

NRCS will develop Version 3 in FY 2019, with multiple releases to include the following functionality:

- Integration with Farmers.gov (the multi-agency web application where all current and future CCG functionality will be provided);
- Enhanced eSignatures for multi-signer transaction status visibility in Farmers.gov and Conservation Desktop;
- Ability for clients to grant third-party access to select client records;
- Ability to work with client information when disconnected from a network (offline);
- New and improved web interface that supports mobile device access;
- Integration of NRCS conservation request workflows with Conservation Desktop Task Management System;
- Foundation functionality to support the future replacement and integration of NRCS' current contract management and easement tracking software;
- Development of basic automated NRCS-Conservation Planning Assistance Environmental Evaluation form;
- Advanced client search capabilities;
- Ability to take conservation plan information and develop contract items to support Farm Bill Program contracting;
- Ability for states to provision state and local geospatial data sets for use in Conservation Desktop;
- Ability create and edit geospatial practice features;
- Development of Conservation Plan Products including maps and schedule of operations;
- Initial integration with NRCS' new Conservation Application Ranking Tool;
- Performing basic resource inventory and assessments to support a conservation plan;
- Ability to collect basic conservation practice certification information in the field on a mobile device;
- Ability to access and use Conservation Desktop on non-USDA computer systems; and
- Additional enhancements and defect fixes.

As NRCS continuously evaluates changes in mission priorities and advances in the information technology marketplace, there is a need to update the technical implementation of CDSI while keeping to the same high-level objectives and overall scope. NRCS has requested USDA approval to proceed with a rebase line planning effort to incorporate the following factors into the CDSI roadmap, business requirements, and technical approach:

- In the 2014-2015 baseline, NRCS had planned CDSI development activities across multiple years, 2014 through 2019. Due to delays in receiving the new Application Development indefinite delivery/indefinite quantity DIQ and completing the CDSI Requirements, Architecture, and Design project, NRCS has not been able to exercise the planned 'parallel development approach'. As a result, the bulk of the remaining application development work has shifted in the schedule and is now scheduled for FY 2019. Even if NRCS was able to compete all the remaining development in FY 2019, the 8,000 field users could not absorb or adjust to this rapid delivery of new conservation tools.

- NRCS has placed an even heavier emphasis on the conservation planning process, which will influence the implementation of Conservation Desktop and MPT to now deliver Conservation Desktop and MPT to not only an estimated 8,000 internal field conservationists, but also an additional 8,000 external field conservationists, all of whom are providing technical and financial assistance on behalf of NRCS to producers. This requires adjustment to the implementation of Conservation Desktop and MPT.

- NRCS is currently developing a new resource assessment process, which requires adjustments for planned CDSI functionality on conducting the various natural resource assessments. As the technology for Big Data has evolved since the previous rebase line in 2014-2015, and especially since the initial visioning in 2008-2010, NRCS plans to evaluate ways to better incorporate data analytics and visualization of both structured and unstructured data to increase confidence of conservation outcomes for our customers.

- The Farm Production and Conservation (FPAC) Mission Area proposed reorganization by the USDA for IT may bring changes that will have an impact on NRCS CDSI development and delivery. With the Secretary's request for a single FPAC Portal, all CCG planned/scheduled development activity in the current business roadmap will be removed due to the shared FPAC approach of having a single customer portal spanning the three FPAC agencies. The portal, called farmers.gov, launched in FY 2018 and will incorporate CCG functionality in FY 2019.

Other Management Information, Initiatives, and Issues

Limitations of the Financial Statement

The Balance Sheet has been prepared to report the financial position of the NRCS, pursuant to the requirements of 31 U.S.C. 3515 (b). While the Balance Sheet has been prepared from the books and records of the entity in accordance with GAAP for federal entities and the format prescribed by OMB, the Balance Sheet is in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The Balance Sheet should be read with the realization that it is for a component of the U.S. Government, a sovereign entity.

SECTION 2: FINANCIAL INFORMATION

NRCS

Natural Resources Conservation Service

Financial Statement

Balance Sheet

As of September 30, 2018
(in millions)

Assets	
Intragovernmental:	
Fund Balance with Treasury (Note 2)	$11,036
Accounts Receivable (Note 3)	9
Total Intragovernmental	$11,045
Accounts Receivable, Net (Note 3)	4
General Property, Plant, and Equipment, Net (Notes 4 and 9)	75
Advances to Others (Note 6)	36
Total Assets	**$11,160**
Stewardship PP&E (Note 5)	
Liabilities:	
Intragovernmental:	
Accounts Payable	$1
Other: (Notes 7 and 8)	
Accrued Liabilities for Other Services	28
Employer Contributions and Payroll Taxes	9
Unfunded FECA Liability	7
Total Intragovernmental	$45
Accounts Payable	$32
Federal Employee and Veterans' Benefits (Note 7)	42
Other: (Note 8)	
Accrued Liabilities for Other Services	1,124
Unfunded Leave (Notes 7 and 8)	72
Accrued Payroll and Leave	28
Advances from Others	24
Other	1
Total Other:	$1,249
Total Liabilities	**$1,368**
Commitments and Contingencies (Note 10)	
Net Position:	
Unexpended Appropriations	$1,773
Cumulative Results of Operations – Funds from Dedicated Collections (Note 11)	4
Cumulative Results of Operations – All Other Funds	8,015
Total Net Position	**$9,792**
Total Liabilities and Net Position	**$11,160**
The accompanying notes are an integral part of this statement.	

Notes to the Financial Statement

Note 1 – Significant Accounting Policies

A. Reporting Entity

The NRCS is a technical service agency within the USDA. NRCS combines the authorities formerly assigned to the Soil Conservation Service (SCS) and additional programs that provide financial assistance for natural resource conservation on private lands. SCS was established in 1935 to carry out a continuing program of soil and water conservation in partnership with local conservation districts. In 1994, the Secretary of Agriculture reorganized SCS by establishing NRCS and broadened its responsibilities, using the authority provided in Public Law 103-354, the Department of Agriculture Reorganization Act of 1994 (7 U.S.C. 6962).

NRCS operates under the guidance of the USDA Under Secretary for Farm Production and Conservation. The NRCS mission is carried out across four regions (Northeast, Southeast, West, and Central) covering all 50 states, the Caribbean Area (Puerto Rico), the Pacific Islands Area, as well as three National Technology Support Centers (NTSCs), and the National NRCS Centers. The NTSCs are located in the eastern, central, and western areas of the Nation. NTSCs acquire and/or develop new science and technology in order to provide cutting-edge technological support and direct assistance, and to transfer technologies to the states, the Pacific Islands Area, and the Caribbean Area. NTSCs also develop and maintain national technical standards and other technological procedures and references. Technological guidance and direction is also provided through the National NRCS Centers, including the National Design, Construction, and Soil Mechanics Center; National Soil Survey Center; National Water and Climate Center; Information Technology Center; National Water Management Center; National Employee Development Center; National Geospatial Center of Excellence; and the National Agroforestry Center. Centers are co-located with other NRCS field offices whenever possible.

Over 10,000 employees work across the nation where NRCS operates or conducts mission-related activities. NRCS is a line and staff organization. The line of authority begins with the Chief and extends down through the Associate Chiefs for Conservation and Operations, Regional Conservationists (Northeast, Southeast, Central, and West), Deputy Chiefs, Division Directors, State Conservationists, and Assistant State Conservationists. Line Officers are responsible for direct assistance to the public. Staff positions provide specialized technical or administrative assistance to Line Officers.

Discretionary Programs

NRCS has discretionary funding appropriated by Congress to provide technical and financial assistance under six lines of business: Conservation Planning and Technical Assistance, Natural Resources Inventory, Natural Resources Assessment, Natural Resources Technology Transfer, Conservation Operations, and Conservation Implementation.

Mandatory Programs

The Agricultural Act of 2014 (2014 Farm Bill) provides authority for NRCS to administer mandatory conservation program activities with no-year funding provided through CCC borrowing authority. The CCC is a Government owned and operated entity that was created to stabilize, support, and protect farm income and prices. Initially incorporated in 1933, the CCC was transferred to the USDA in 1939, and reincorporated on July 1, 1948 as a federal corporation within USDA. The authorizing language in the 2014 Farm Bill specified that the funds, facilities, and authorities of CCC be used to administer various mandatory conservation programs.

NRCS receives mandatory funding under the 2014 Farm Bill to provide technical and financial assistance for the following programs: Environmental Quality Incentives Program (EQIP), Conservation Stewardship Program (CSP), Agricultural Conservation Easement Program (ACEP), Regional Conservation Partnership Program, Voluntary Public Access and Habitat Incentive Program, Mitigation Banking Program, and Small Watershed Rehabilitation Program. In addition, NRCS receives mandatory funding under Section 524(b) of the Federal Crop Insurance Act for the Agricultural Management Assistance Program. The funding for these programs is received from CCC through quarterly non-expenditure transfers for the estimated obligations to be incurred through the end of each quarter. In addition to the programs mentioned above, NRCS provides Conservation Innovation Grants (CIG), which are funded through EQIP. CIG is a voluntary program that enables NRCS to work with other public and private entities to accelerate technology transfer and adoption of promising technologies and approaches to address some of the Nation's most pressing natural resource concerns. Authorized funding for the FY 2018 Farm Bill programs is $3.6 billion.

B. Basis of Presentation and Accounting

The Balance Sheet for FY 2018 and related footnotes are presented to report the assets, liabilities and net position of NRCS. The Statement of Net Cost, Statement of Changes in Net Position, and the Combined Statement of Budgetary Resources and related notes are presented in the Other Information section as unaudited. The Balance Sheet was prepared from the books and records of NRCS in accordance with GAAP as promulgated by the Federal Accounting Standards Advisory Board (FASAB).

C. Fund Balance with Treasury

The U.S. Department of the Treasury processes cash receipts and disbursements on behalf of NRCS. Funds on deposit with Treasury include general funds and discretionary appropriations, non-expenditure transfers, clearing accounts, deposit funds, one trust fund, and one revolving fund that are available to pay liabilities and finance authorized expenditures.

D. Accounts Receivable, Net

NRCS records amounts owed to NRCS in the FMMI financial system, issues billing documents, and manages accounts receivable activity. The collections are deposited at a USDA lockbox managed by the USDA Chief Financial Officer, Financial Services Division. An allowance for doubtful accounts is recorded quarterly for receivables with the public for the amount of receivables estimated to be uncollectible, based on historical experience.

E. General Property, Plant and Equipment (PP&E), Net

General PP&E includes real and personal property used in normal business operations, including one multi-use heritage asset, the Tucson Plant Materials Center (see note 5). NRCS real and personal property are recorded at cost and generally have an estimated useful life of five years or more. The capitalization threshold for real and personal property is $25,000. Internal use software is capitalized if the cost meets or exceeds $100,000 and has a two year (or greater) useful life. NRCS scores leases in conformance with OMB Circular A-11: *Preparation, Submission, and Execution of the Budget*; Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities for the Federal Government;* and SFFAS No. 6, *Accounting for Property, Plant and Equipment.* Under SFFAS No. 6, the cost of general PP&E acquired under a capital lease is equal to the amount recognized as a liability for the capital lease at its inception (net present value of the lease payments) unless the net present value exceeds the fair value of the asset.

F. Advances to Others

Payments made in advance of the receipt of goods and services are recorded by NRCS as advances at the time of payment and recognized as expenditures or expenses when the related goods and services are received.

G. Liabilities

Liabilities represent the probable and measurable future outflow of funds or other resources arising from past transactions or events. In general, funds cannot be withdrawn from the U.S. Treasury without an appropriation from Congress. Liabilities for which there is no appropriation, and for which there is no certainty that an appropriation will be enacted, are classified as unfunded liabilities. The U.S. government acting in its sovereign capacity can abrogate liabilities. NRCS is not aware of any limitations on the government's ability to abrogate liabilities.

H. Workers Compensation Liability

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to federal civilian employees injured on the job, employees who have incurred a work related occupational disease, and beneficiaries of employees whose death is attributable to a work-related injury or occupational disease. Benefit claims incurred for NRCS employees under FECA are administered by the U.S Department of Labor (DOL). NRCS reimburses DOL for FECA claims. Consequently, NRCS recognizes a liability for this compensation comprised of: (1) an accrued liability that represents money owed for claims paid by the DOL through the current fiscal year, and (2) an actuarial liability that represents the expected liability for NRCS approved compensation cases to be paid beyond the current fiscal year.

I. Employee Annual, Sick, and Other Leave

Annual and other vested leave such as compensatory time earned, credit hours, and restored leave is accrued as it is earned and the accrual is reduced as leave is taken. Each quarter, the balance in the accrued annual leave account is adjusted to reflect the latest pay rates and unused hours of leave. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Sick leave and other types of non-vested leave are expensed when incurred.

J. Pension and Other Retirement Benefits

NRCS employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). On January 1, 1987, the FERS, a mixed system of defined benefit and defined contribution plans, went into effect pursuant to P.L. 99-335. FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984 could elect to enroll in FERS and Social Security or remain in CSRS. One of the primary differences between FERS and CSRS is that FERS offers automatic and matching contributions into the Federal Government’s Thrift Savings Plan (TSP) for each employee. All employees may invest up to $18,500 in their TSP account in calendar year 2018. Additionally, for FERS employees, NRCS automatically contributes one percent of base pay, and matches employee contributions up to an additional four percent of base pay. Since 1987, the FERS program has been modified twice in terms of how much employees are required to contribute to the defined benefit savings plan. Employees hired after December 31, 1983 and on or before December 31, 2012 contribute .8 percent of base pay for FERS retirement. Pursuant to P.L. 112-96, employees hired (or rehired with less than five years creditable or potentially creditable service under CSRS) on or after January 1, 2013 contribute 3.1 percent of base pay for FERS retirement coverage. Pursuant to the Bipartisan Budget Act of 2013, employees hired (or rehired with less than five years creditable or potentially creditable service under FERS) on or after January 1, 2014 contribute 4.4 percent of base pay for FERS retirement coverage.

For FERS participants, NRCS also makes matching contributions for programs of the Social Security Administration (SSA) under the Federal Insurance Contributions Act (FICA).

K. Imputed Financing

NRCS recognizes the amount of accrued pension and postretirement benefit expenses for current employees as imputed financing costs. The assets and liabilities associated with such benefits are the responsibility of the administering agency, OPM. Any amounts paid from the Treasury Judgment Fund in settlement of claims or court assessments against NRCS are also recognized as imputed financing. Finally, USDA allocates a portion of its headquarters office space, operations, and maintenance costs to each USDA agency. NRCS recognized imputed financing of $128 million for the year ended September 30, 2018 for the Treasury Judgment Fund, accrued pension and postretirement benefit expense, and the USDA headquarters allocation.

L. Use of Estimates

Management has made certain estimates and assumptions when reporting assets and liabilities. Actual results could differ from these estimates. Significant estimates underlying the accompanying financial statement include the majority of accrued liabilities and federal employee health benefits.

M. Funds from Dedicated Collections

In accordance with SFFAS 43, *Funds from Dedicated Collections*, NRCS reports the funds from dedicated collections for which it has program management responsibility when the following three criteria are met: (1) a statute committing the Federal Government to use specifically identified revenues and/or other financing sources that are originally provided to the Federal Government by a non-federal source only for designated activities, benefits, or purposes; (2) explicit authority for the funds to retain revenues and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and (3) a requirement to account for and report on the receipt, use, and retention of revenues and/or other financing sources that distinguishes the fund from the Federal Government's general revenues.

Note 2 – Fund Balance with Treasury

NRCS's Fund Balance with Treasury includes primarily general funds (appropriated and transferred in), one trust fund, and one revolving fund that are available to pay liabilities and finance authorized purchase commitments. Additionally, other fund types include deposit and clearing accounts. Non-budgetary Fund Balance with Treasury includes proceeds from vehicle sales, intragovernmental payments and collections, and funds on deposit from non-federal entities. There are no material differences between Treasury and the agency's general ledger. NRCS has no unused funds in cancelled appropriations that have not been returned to the U.S. Department of the Treasury.

Status of Fund Balance with Treasury (Unaudited) (in millions)	2018
Unobligated Balance:	
Available	$2,550
Unavailable	2,643
Obligated balance not yet disbursed	5,794
Non-budgetary Fund Balance with Treasury	49
Total	**$11,036**

Table 15: Status of Fund Balance with Treasury

Note 3 – Accounts Receivable, Net

Intragovernmental accounts receivable represent amounts due under reimbursable and cooperative agreements with federal entities for services provided by NRCS under the Economy Act, U.S. Code §1535. An allowance for uncollectible accounts is not established for these amounts because monies due from other federal agencies are considered fully collectible.

Accounts Receivable with the public is comprised primarily of cost share agreements with state and local governments owed to NRCS for providing technical assistance on conservation projects. The allowance for uncollectible accounts is recorded using an aging methodology based on an analysis of historical collections and write-offs.

Accounts Receivable (in millions)	Gross Receivables	Allowance for Uncollectible Accounts	Net Receivables
Intragovernmental	$9	0	$9
With the Public	6	(2)	4
Total	**$15**	**$(2)**	**$13**

Table 16: Accounts Receivable

Note 4 – General Property, Plant, and Equipment (PP&E), Net

Depreciation of general PP&E is recorded using the straight-line method based on the estimated useful life in years as listed below. There are no restrictions on use or convertibility of general PP&E. In terms of Net Book Value, the largest category of PP&E is internal use software (IUS). IUS are internally developed program and information systems that have been put into place or are being developed by contractors or NRCS employees after undergoing a detailed and structured investment review process to determine if the need for the system cannot be met through an existing product and if the benefits of the proposed system are worth the cost. General office and field equipment is the second largest category of PP&E, followed by buildings, improvements, and renovations. NRCS also has one multi-use heritage asset which is reported in Note 5 – Stewardship PP&E.

General Property, Plant, and Equipment, Net (in millions)	Estimated Useful Life (Years)	Cost	Accumulated Depreciation and Amortization	Net Book Value
Personal Property:				
Equipment	5-20	$85	$70	$15
Internal Use Software	5	99	63	36
Internal Use Software in Development	0	19	0	19
Total Personal Property		**203**	**133**	**70**
Real Property:				
Land and Land Rights		1	0	1
Buildings, Improvements, and Renovations	15-30	14	10	4
Other Structures and Facilities	15-50	4	4	0
Assets under Capital Leases	Varies	2	2	0
Total Real Property		**21**	**16**	**5**
Total		**$224**	**$149**	**$75**

Table 17: General PP&E

Note 5 – Stewardship PP&E

Stewardship PP&E consists of assets whose physical properties resemble those of general PP&E that are traditionally capitalized in the financial statements. Due to the nature of these assets, valuation would be difficult and matching costs with specific periods would not be meaningful. NRCS Stewardship PP&E includes stewardship land and one heritage asset.

Stewardship Land

The stewardship land for NRCS consists of conservation easements. NRCS's mission objectives in administering the conservation easement programs are to provide landowners with financial and technical assistance in return for maintaining and improving high quality productive soils, clean and abundant water, healthy plant and animal communities, clean air, an adequate energy supply, and working farm and ranch lands.

NRCS's objectives in managing, monitoring, and enforcing the terms and conditions of easement deeds are to ensure that (1) taxpayer investments are properly used in accordance with the intent of the program; (2) the agency is a good steward of the land; and (3) the land is properly maintained and managed compliant with agreed to terms and conditions of the easement deed.

Stewardship resources involve substantial investment in order to gain long-term benefits for the American public and help the agency satisfy its mission. The purpose of purchasing easements is to restore or enhance wetlands, farmland, grasslands, forest ecosystems, and restore, protect, maintain, and enhance the functions of floodplains.

NRCS, on behalf of USDA, administers and owns conservation easements on private lands through a variety of programs. The specific uses for the land are identified under each program. Landowners are not allowed to withdraw from the program. However, termination or expiration of the easement may occur.

For the purpose of reporting, all easements where NRCS (or a variant of the United States administered through NRCS authorities) is listed as a grantee of the easement are included in the agency's stewardship land count. The NRCS stewardship land easements include conservation easements enrolled through program authorities and other easements administered by NRCS. As of September 30, 2018, NRCS had 18,344 stewardship land easements. The additions of 390 include 328 new stewardship land easements and 62 added to the beginning of the fiscal year balance. The monitoring and reconciliation of stewardship land easement balances is ongoing.

Heritage Assets

Heritage assets are unique for their historical or natural significance, for their cultural, educational, or artistic importance, or for their significant architectural characteristics. NRCS generally expects that heritage assets will be preserved indefinitely.

NRCS owns one heritage asset, the Tucson Plant Materials Center (TPMC), which is included in general PP&E as a multi-use asset. It was listed in the National Register of Historic Places on July 2, 1997. The TPMC develops and evaluates native plants and addresses an array of resource issues relating to rangeland, mines, urban land, cropland riparian areas, and desert land. The TPMC provides technical assistance to NRCS field offices, Resource Conservation and Development groups, conservation districts, federal, state, or tribal agencies, and private landowners throughout the Southwest.

Stewardship PP&E (in numbers)	Beginning Balance 2018	Additions	Ending Balance 2018
Heritage Assets			
Research Centers	1	0	1
Stewardship Land			
Conservation Easements	17,954	390	18,344

Table 18: Stewardship PP&E

Note 6 – Advances to Others

Advances to Others are comprised of funds advanced to state and local governments, non-federal business entities, and the public through conservation plans and easements.

Advances to Others (in millions)	2018
With the Public	36
Total	**$36**

Table 19: Advances to Others

Note 7 – Liabilities Not Covered by Budgetary Resources

By law, federal agencies cannot make outlays unless Congress has authorized and appropriated funds and OMB has provided an apportionment. A portion of the liabilities reported on the Balance Sheet are currently not funded by budgetary resources. Examples include unfunded employee costs for annual leave earned but unused and FECA benefits that are accrued to cover liabilities associated with employee deaths, disabilities, medical issues, and other costs for which funds have not been appropriated. Custodial liabilities represent collections made on behalf of the General Fund of the Treasury for civil monetary penalties and interest or commercial fines and penalties and are transferred to Treasury at year end. The other liabilities will be paid at the time that a qualifying event occurs and will be expended from appropriations available at that time.

Other Intragovernmental Liabilities Not Covered by Budgetary Resources consists of FECA accruals. Other Liabilities with the Public Not Covered by Budgetary Resources is comprised primarily of future indemnity costs for unfunded employee leave and retirement benefits.

Liabilities Not Covered by Budgetary Resources (in millions)	2018
Intragovernmental:	
FECA	$7
Total Intragovernmental	$7
Unfunded leave	72
Federal Employee and Veterans' Benefits	42
Total liabilities not covered by budgetary resources	**$121**
Total liabilities covered by budgetary resources	$1,222
Total liabilities not requiring budgetary resources	$25
Total Liabilities	**$1,368**

Table 20: Liabilities Not Covered by Budgetary Resources

Note 8 – Other Liabilities

Other liabilities encompass both intragovernmental and those with the public. Other liabilities include but are not limited to payables for grants and cooperative agreements, advances and prepayments from others, and accrued liabilities. The liability for deposit funds and clearing accounts reflects the amount that offsets collections awaiting disposition or reclassification.

Other Liabilities (in millions)	FY 2018		
	Non-Current	Current	Total
Intragovernmental:			
Accrued Liabilities for Other Services	$0	$28	$28
Employer Contributions and Payroll Taxes	0	9	9
Unfunded FECA Liability	4	3	7
Custodial Liabilities	0	1	1
Liability for Deposit Funds and Clearing Accounts	0	(1)	(1)
Subtotal Intragovernmental	**4**	**40**	**44**
With the Public:			
Accrued Liability for Grants and Agreements	0	1,034	1,034
Accrued Liabilities for Technical and Other Services	0	82	82
Unfunded Leave	0	72	72
Accrued Funded Payroll and Leave	0	28	28
Advances from Others	0	24	24
Accrued Liabilities for Land and Structures	0	6	6
Accrued Liabilities for Miscellaneous Services	0	3	3
Subtotal With the Public	**0**	**1,249**	**1,249**
Total Other Liabilities	**$4**	**$1,289**	**$1,293**

Table 21: Other Liabilities

Note 9 – Leases

NRCS has entered into leasing agreements with the General Services Administration (GSA) and other parties through leasing authority delegated by GSA. The leases are for office space for field office operations or for buildings and land for Plant Materials Centers. The lease arrangements generally range from five to ten years, but may be longer for Plant Materials Centers, and generally contain renewal options. Most leases are subject to cancellation upon certain funding conditions and all are covered by budgetary resources. NRCS enters into operating leases primarily for office space and some equipment. The values for capital lease assets and future payment information for operating leases are shown in the tables below.

Entity as Lessee: Capital Leases	2018 (in millions)
Summary of Assets Under Capital Lease	
Land and Buildings	$2
Less: Accumulated Amortization	(2)
Total Assets Under Capital Lease	**$0**

Table 22: Capital Leases Summary

Future Payments Due for Non-Cancellable Operating Leases (in millions) Fiscal Year	Federal	NonFederal	Land and Buildings
Year 1 (2019)	$27	$24	$51
Year 2 (2020)	21	17	38
Year 3 (2021)	17	12	29
Year 4 (2022)	14	9	23
Year 5 (2023)	13	5	18
After 5 Years	47	13	60
Total Future Lease Payments	**$139**	**80**	**$219**

Table 23: Total Future Payments for Non-Cancellable Operating Leases

Note 10 – Commitments and Contingencies

NRCS is potentially subject to various claims and contingencies related to lawsuits as well as commitments under contractual and other commercial obligations.

As of September 30, 2018, no pending legal matters exist that were considered probable or reasonably possible, which require recognition (accrual) in the Balance Sheet or require further disclosure.

Note 11 – Funds from Dedicated Collections

A. Balance Sheet

NRCS recognizes Treasury accounts 12X4368, the Damage Assessment and Restoration Revolving Fund, and 12X8210, Miscellaneous Contributed Funds, as funds from dedicated collections in compliance with SFFAS 43, *Funds from Dedicated Collections*. Funds from dedicated collections are financed by specifically identified revenues which remain available over time. Financial information for these funds are presented separately in accordance with federal reporting requirements.

The Damage Assessment and Restoration Revolving Fund is privately funded and authorized by 33 U.S.C. 2706 (b) (2). The resources in this fund are available to federal and state agencies involved in restoring natural resources damaged as a result of the 2010 oil spill in the Gulf of Mexico.

Balance Sheet – Funds from Dedicated Collections as of September 30, 2018
(in millions)

	Damage Assessment and Restoration Revolving Fund	Miscellaneous Contributed Funds	Total Funds From Dedicated Collections
Assets			
Intragovernmental:			
Fund Balance with Treasury	$3	$1	$4
Total Intragovernmental	3	1	4
Total Assets	**$3**	**$1**	**$4**
Cumulative Results of Operations	3	1	4
Total Net Position	**3**	**1**	**4**
Total Liabilities and Net Position	**$3**	**$1**	**$4**

Table 24: Funds from Dedicated Collections – Balance Sheet

SECTION 3: REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (Unaudited)

Human Capital

NRCS's investment in human capital is primarily for education and training programs that are intended to increase or maintain national economic productive capacity. Human capital investment also seeks to produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity. Investment in human capital is expensed each year as incurred.

National Volunteer Program

As the Nation's conservation agenda continues to become more complex, the need for technical information and advice will increasingly exceed the capacity of the federal workforce to respond in a timely manner.

Volunteers have been an integral part of grassroots-based conservation on private lands since the organization of conservation districts in 1937. In recognition of the interest and skills in conservation that many Americans have, Congress passed the Food and Agriculture Act (P.L. 97-98, 1526) in 1981, authorizing NRCS to use volunteers. In 1985, the volunteer effort was organized as the Earth Team. The primary purpose of the Earth Team is to expand NRCS services by using volunteer time, talent and energy to help accomplish the NRCS mission.

The value of Earth Team volunteers becomes even more important as NRCS staffing declines and the field workload increases. Volunteers can increase overall staff capacity, expand staff skills, strengthen conservation partnerships, and provide conservation education to communities and organizations.

The majority of Earth Team volunteers spend their time doing conservation implementation, conservation planning and technical consultation, conservation education, and outreach and communication. NRCS utilized over 39,000 volunteers who donated over 328,000 hours of service for the year ended September 30, 2018. Volunteer time is valued at $8 million dollars (using the hourly rate of $24.69 as estimated by the Independent Sector, a national volunteer leadership organization).

Research and Development

NRCS research and development investments include the advancement of plant technology and the improvement of soils.

Plant Materials Centers

NRCS Plant Materials Centers (PMC) are research farms engaging in applied research and development as defined in SFFAS No. 8. Overall efforts of PMCs include the selection of plants and the development of plant technology used by NRCS and conservation partners for the application of vegetation to solve natural resource issues on private and public lands.

Applied research includes the plant selection and technology development activities of PMCs. PMC plant selection involves the assembly and evaluation of plants for specific attributes. These plant assemblies may undergo several cycles of crossing and evaluation. Replicated plantings and the use of statistical analysis may be involved in the evaluations. The product is a new conservation plant released to commercial growers for large scale production and sale to customers (landowners) for natural resource conservation projects. PMCs develop the technology needed to grow these plant selections, which includes propagation, seed and plant production, and seed and plant processing. Commercial growers use this information in order to more efficiently produce the millions of plants needed for conservation products each year. PMCs also develop technology for application of plants used in conservation projects, including seeding technology, novel establishment methods, and management methods. NRCS field staff, conservation partners, and landowners use this information to improve the efficiency or long-term success of conservation plantings.

Development includes the production of foundation seed and plants of PMC plant selections and activities which promote PMC plants and technology. Foundation seed production involves the increase of first generation plant materials from the breeding stock of PMC plant selections. Foundation seed production is critical in that it provides the starter material needed by commercial growers for large scale production of these conservation plants. The promotion of PMC plants and technology through field plantings, demonstration sites, tours, and presentations is important to improve awareness and gain widespread acceptance of new plants and plant information developed by NRCS.

The PMC expenses reported below include the costs of applied research efforts, development activities, administrative costs and the cost of operating the facilities. The majority of these costs are incurred directly by NRCS, although two non-NRCS PMCs are funded through grants or agreements with non-federal partners.

Research and Development Investment (in millions)	2014	2015	2016	2017	2018	Total Investment
Plant Materials Centers	$9	$9	$11	$12	$12	$53

Table 25: Five Year Summary of Plant Materials Centers Research and Development Costs

Soil Survey Research

The NRCS Soil Science Division (SSD) conducts soil survey research and provides leadership for the National Cooperative Soil Survey (NCSS), which is responsible for the soils inventory of the United States and interpreting this information to "help people help the land" through natural resource conservation.

Research scientists engage in research and development projects to discover new information and apply existing technologies for improvement of the soil survey. NRCS scientists collaborate with colleagues in other federal and state agencies and universities on research and development projects. The types of research include soil geochemistry, soil geomorphology, soil quality, soil change, soil mineralogy, soil nutrient relationships, and soil organic carbon dynamics. Research results improve the efficiency and quality of spatial and tabular soil survey data and its interpretation and application for natural resource conservation. End products include technical documents, scientific journal articles, soil data bases, technical presentations, and training provided to NRCS soil scientists, other scientists, and end users of soil survey information.

The soil survey research expenses reported below include scientist salaries and specific research project funding through cooperative agreements with universities and federal and state agencies.

Research and Development Investment (in millions)	2014	2015	2016	2017	2018	Total Investment
Soil Survey Research	$2	$2	$1	$1	$1	$7

Table 26: Five Year Summary of Soil Survey Research and Development Costs

Soil survey research outputs are primarily technical documents prepared for the scientific community and other customers and are disclosed in SSD and NCSS annual reports. For example, in FY 2018 NRCS funded a published study concerning how legacy soil data around the world can be preserved by scanning soil data in paper format into online databases. Soil survey research outputs relate to the NRCS Strategic Plan Goal, "High Quality Productive Soils". Outcomes from these outputs directly and indirectly relate to the efficiency and quality of the soil survey and its use for natural resource conservation activities.

The following table summarizes SSD technical and scientific publications for the last five years. This does not include publications by cooperators related to cooperative agreements. There is no direct correlation between funds expended and technical and scientific publications prepared for customers. There are many variations in the complexity of research projects and the more complex projects may take multiple years to complete.

Fiscal Year	Technical and Scientific Publications
2014	21
2015	10
2016	24
2017	14
2018	15

Table 27: Five Year Summary of Technical and Scientific Publications

SECTION 4: REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Condition of Heritage Assets and Stewardship Lands

Heritage Assets

In 1997, the Tucson Plant Materials Center in Tucson, Arizona was placed on the National Register of Historic Places. The Tucson PMC service area encompasses the Sonoran, Chihuahuan, and Mohave deserts in areas of Arizona, California, Nevada, New Mexico, and Utah. Major land uses in this area include irrigated farmland, rangeland, and mines. The PMC develops and evaluates adapted plant materials and technologies for needs throughout the service area. Because the asset is used in general government operations as well as being designated as a heritage asset, it is classified as a multi-use heritage asset in accordance with SFFAS No. 29. The condition and deferred maintenance of this asset is included with the general PP&E assets discussed below.

Stewardship Land

Stewardship land consists of conservation easements acquired under a variety of easement programs and authorities. NRCS's mission objectives in administering the conservation easement programs are to provide landowners with financial and technical assistance in return for maintaining and improving high quality productive soils, clean and abundant water, healthy plant and animal communities, clean air, an adequate energy supply, and working farm and ranch land.

The following chart depicts the condition status of NRCS stewardship land easements for the year ended September 30, 2018 (see note 5 for more information about easement assets). The chart is based on data from the National Easements Staging Tool (NEST). NRCS conducts monitoring and enters monitoring data into NEST on a fiscal year basis. Due to weather and other conditions related to the management of easements, much of the annual monitoring is completed and entered into NEST in the 4th quarter of the fiscal year.

Condition	Description	Easements Meeting the Condition	Percentage
Green	Easements are being maintained in accordance with all terms and conditions	13,893	76%
Yellow	Easements with minor administrative issues requiring corrective actions to fully comply with all terms and conditions	2,790	15%
Red	Easements with documented violations that require corrective actions	878	5%
Not Assessed	Easements that did not require monitoring, had an undetermined condition, or were closed in FY 2018	783	4%
Total		**18,344**	**100%**

Table 28: Stewardship Easements Condition Status

Deferred Maintenance and Repairs

NRCS owns, builds, purchases, and contracts services for assets such as office buildings, greenhouses, warehouse and storage buildings, roads, bridges, and other structures. The agency utilizes and maintains these assets in support of efforts to work with landowners and land managers to protect natural resources on private lands.

The NRCS portfolio of real property assets includes 29 sites with owned land or buildings. There are 24 PMCs, which are research farms consisting of an office building, greenhouses, service buildings, and warehouse and storages facilities. Other features of PMCs typically include equipment shelters, irrigation water wells, pumps or distribution systems, paved or gravel surfaces, and fuel storage and pumps. Five additional sites include one educational facility, one small NRCS field office, one storage facility, and two unmanned relay stations for snow survey and climate data. The educational facility in Riverside, CA, used by both NRCS and another entity, was previously excluded from the deferred maintenance report because of pending action to transfer this site to the other entity. This action has not happened and NRCS has since completed a facility condition assessment for this site that is included in the report below.

Maintenance of NRCS assets includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable service and achieve its expected life. Maintenance excludes activities aimed at expanding the capacity of an asset or upgrading it to service needs different from or significantly greater than those originally intended. When maintenance is not completed on assets as needed or scheduled and is delayed into the future, it is defined as deferred maintenance. Deferred maintenance represents a cost that the Federal Government has elected not to fund and therefore the costs are not reflected in the financial statements.

NRCS is committed to sustaining a manageable level of infrastructure, disinvesting in infrastructure that can no longer be managed to appropriate standards, right-sizing its asset portfolio, and reducing the backlog of deferred maintenance.

Deferred Maintenance Policies

Deferred maintenance estimates for assets are based on condition surveys performed on a five-year maximum revolving schedule. NRCS last conducted condition surveys in fiscal year 2014. In fiscal year 2018, NRCS contracted with GSA for an update of the condition surveys. NRCS received the survey final reports late in fiscal year 2018 and will incorporate the survey information into agency records in fiscal year 2019 in accordance with the five-year schedule. NRCS maintains an inventory and description of all owned facilities and structures in USDA's Corporate Property Automated Information System (CPAIS).

Estimated costs for replacement, repair, or maintenance of all classes of PP&E are based on the probable or actual extent of the observed defect, inclusive of the cost to design, procure, construct, and manage the replacement, repair, or maintenance. These estimates are based on invoice or bid documents provided by the facility manager and on construction costs developed from construction resources and industry standards, along with knowledge of past costs for similar properties, city cost indices, and assumptions regarding future economic conditions.

NRCS uses AssetCALC, a third-party software, to maintain detailed information on asset components and maintenance schedules and costs. AssetCALC data is the basis for computing the cost to return assets requiring maintenance to an acceptable condition. The AssetCALC estimated costs used are a result of facility condition assessments and additional maintenance items which became deferred since the facility condition assessments were conducted, less the cost of maintenance completed.

NRCS reviews information in CPAIS and AssetCALC annually for accuracy and completeness. NRCS estimates deferred maintenance and repair costs for all accountable owned real property, whether it is capitalized or fully depreciated.

Estimated Deferred Maintenance

The dollar amounts in the following table include costs to return assets with deferred maintenance to acceptable condition.

Asset Class	Overall Condition	Cost to Return to Acceptable Condition (dollars)		Change in Cost from Beginning to Ending Balance (dollars)
		Beginning Balance (October 1, 2017)	Ending Balance (September 30, 2018)	
Office Buildings	critical-good	453,366	385,872	(67,494)
Greenhouses	critical-good	422,693	435,518	12,825
Service Buildings	critical-good	285,522	253,107	(32,415)
Warehouse/Storage Buildings	critical-good	354,016	378,106	24,090
Other Buildings	critical-good	137,050	134,236	(2,814)
Irrigation Systems	poor-good	87,537	21,173	(66,364)
Other Structures and Features	critical-good	146,375	140,631	(5,744)
Total		$1,886,559	$1,748,643	($137,916)

Table 29: Deferred Maintenance, Totals By Asset Class

The increase in cost to return assets to acceptable condition during the period reflects additional assets which fell below acceptable condition and which exceeded the maintenance completed.

NRCS uses the information in AssetCALC to rank and prioritize maintenance projects. AssetCALC classifies each asset component as critical or noncritical depending on the importance of the component to the asset function. A critical component is defined as one that affects the strategic goals and objectives of NRCS, the health and safety of the public or NRCS employees, or provides emergency services for local or national security purposes. All other components are classified as noncritical. There is also a current condition field in the AssetCALC data base. The physical condition of building systems and related components are defined as being in one of four conditions. The following rating system is used to assess the condition of all building and structural components through observation:

- 4 - New/Excellent: new or excellent condition;
- 3 - Acceptable/Satisfactory as-is: requires only routine maintenance;
- 2 - Below Acceptable but Usable/Satisfactory as-is: repair or replacement is required in the near term due to current physical condition or estimated remaining useful life; and
- 1 - Failed/Unusable: immediate repair, replacement, or significant maintenance is required.

NRCS combines the critical/noncritical and current condition factors to rank critical components, with a current condition of "failed/unusable" as highest priority. In addition, NRCS considers the condition index score and condition rating of a building when deciding to address deferred maintenance. In some cases when the condition index score is very low, NRCS decides that disposal and replacement of an asset, rather than repairing it, is more cost effective to meet increased capacity, energy efficiency, and changes in mission-related activities.

The overall condition of major asset classes varies depending on the location, age, and type of property. The following table displays how NRCS defines asset condition on the basis of critical maintenance needed in the current year and the number of assets in each category.

Condition Index	Condition Rating	Number of NRCS Assets
Greater than 95.00	Good	379
Between 90.00 and 94.99	Fair	34
Between 70.00 and 89.99	Poor	30
Less than 70.00	Critical	18
Total		**461**

Table 30: Condition, Definition, and Characterization of Assets

NRCS manages its buildings in compliance with regulations and guidance from GSA, USDA, and Executive Orders. Buildings shall also comply with applicable codes such as the National Life Safety Code, Occupational Safety and Health Administration rules, and the Architectural Barriers Act Accessibility Standard, and other regulatory and compliance requirements as determined by condition surveys. NRCS applies these regulations and requirements consistently to all major classes of PP&E. Guidelines used may vary from the norm based on the mission of each facility and use of each asset. NRCS began to make significant investments in FY 2015 to address the backlog of deferred maintenance. This has continued into FY 2018. NRCS has completed many of these projects to address deferred maintenance issues, as evidenced by the overall decrease in the deferred maintenance estimate. Projects that are still in the process of being completed will affect NRCS' deferred maintenance estimate in FY 2019.

SECTION 5: OTHER INFORMATION (Unaudited)

Unaudited Financial Statements

NRCS
Natural Resources Conservation Service

Statement of Net Cost (Unaudited)

For the Year Ended September 30, 2018
(in millions)

Gross Program Costs:	Unaudited
Goal 1 – Deliver High-Quality Science and Technology for Voluntary Private Lands Conservation	
Gross Costs (Notes 11, 12, and 13)	$500
Less: Earned Revenue (Notes 12 and 14)	9
Net Program Costs	**491**
Goal 2 – Promote Productive Working Lands and Healthy Waters	
Gross Costs (Notes 11, 12, and 13)	3,168
Less: Earned Revenue (Notes 12 and 14)	18
Net Program Costs	**3,150**
Goal 3 – Protect and Enhance Productive Agricultural Landscapes	
Gross Costs (Notes 11, 12, and 13)	451
Less: Earned Revenue (Notes 12 and 14)	5
Net Program Costs	**446**
Goal 4 – Support Healthy Watersheds and Diverse Land Use Communities	
Gross Costs (Notes 11, 12, and 13)	183
Less: Earned Revenue (Notes 12 and 14)	8
Net Program Costs	**175**
Total Gross Costs:	**4,302**
Less: Total Earned Revenue	**40**
Net Cost of Operations (Note 19)	**$4,262**
The accompanying notes are an integral part of this statement.	

Natural Resources Conservation Service

Statement of Changes in Net Position (Unaudited)

For the Year Ended September 30, 2018

(in millions)

	Funds from Dedicated Collections (Note 11)	All Other Funds	Total Unaudited
Unexpended Appropriations:			
Beginning Balance	$0	$1,151	$1,151
Budgetary Financing Sources:			
Appropriations received	$0	$1,579	$1,579
Other Adjustments	0	(13)	(13)
Appropriations Used	0	(944)	(944)
Total Budgetary Financing Sources	$0	$622	$622
Total Unexpended Appropriations	$0	$1,773	$1,773
Cumulative Results of Operations:			
Beginning Balances	$4	$7,820	$7,824
Budgetary Financing Sources:			
Other Adjustments	$0	$(256)	$(256)
Appropriations used	0	944	944
Transfers-In (Out) Without Reimbursement	1	3,640	3,641
Other Financing Sources (Non-Exchange):			
Imputed Financing	$0	$128	$128
Total Financing Sources	$1	$4,456	$4,457
Net Cost of Operations	(1)	(4,261)	($4,262)
Net Change	0	195	195
Cumulative Results of Operations	$4	$8,015	$8,019
Net Position	**$4**	**$9,788**	**$9,792**
The accompanying notes are an integral part of this statement			

Natural Resources Conservation Service

Combined Statement of Budgetary Resources (Unaudited)

For the Year Ended September 30, 2018

(in millions)

Budgetary Resources:	Unaudited
Unobligated balance from prior year budget authority, net (discretionary and mandatory) (Note 17)	$4,925
Appropriations (discretionary and mandatory)	5,202
Spending authority from offsetting collections (discretionary and mandatory)	65
Total budgetary resources (Note 17)	$10,192
Status of Budgetary Resources	
New obligations and upward adjustments (Note 15)	$4,999
Unobligated balance, end of year:	
Apportioned, unexpired accounts	2,550
Unapportioned, unexpired accounts	(7)
Unexpired unobligated balance, end of year	2,543
Expired unobligated balance, end of year	2,650
Total unobligated balance, end of year	$5,193
Total budgetary resources (Note 17)	$10,192
Outlays, Net:	
Outlays, net (discretionary and mandatory)	3,991
Distributed offsetting receipts	(5)
Agency outlays, net (discretionary and mandatory)	$3,986
The accompanying notes are an integral part of this statement.	

Unaudited Notes to the Financial Statements For The Year Ended September 30, 2018

Note 1B – Significant Accounting Policies

A. Basis of Presentation and Accounting

The Statement of Net Cost, Statement of Changes in Net Position, and the Combined Statement of Budgetary Resources (hereinafter referred to as the other "financial statements") were prepared to report the net costs; changes in net position; and budgetary resources of NRCS. The other financial statements have been prepared from the books and records of NRCS in accordance with GAAP as promulgated by the Federal Accounting Standards Advisory Board (FASAB).

The other financial statements present both proprietary and budgetary information. The accounting structure of federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned, and expenses are recognized when incurred. Budgetary accounting is designed to recognize the obligation of funds according to legal requirements. The recognition of budgetary accounting transactions is essential for compliance with legal restraints and controls over the use of federal funds.

B. Revenues and Other Financing Sources

NRCS has two major funding sources: Congressional appropriations for discretionary funds and non-expenditure transfers of Farm Bill funds from CCC borrowing authority. NRCS receives annual, multi-year, and no-year appropriations that are used within statutory limits for operating expenditures and financial assistance payments to landowners. Other funding sources include reimbursable agreements with other federal agencies, State and local governments, tribal agencies, and the public.

Appropriations are recognized as used at the time NRCS incurs the related program or administrative expenses or when the appropriations are expended for capitalized property or equipment. Other revenues are recognized as earned on an accrual basis when services are delivered.

NRCS classifies revenue as either exchange revenue or non-exchange revenue. Exchange revenue arises from transactions where each party to the transaction gives value and receives value in return. An example of exchange revenue is the income from providing technical advice on controlling erosion on a stream bank. NRCS is authorized to use all or a portion of its exchange revenue for specific purposes. Non-exchange revenue is revenue the Federal Government is able to demand or receive because of its sovereign powers. Penalties and cash donations received from private citizens and organizations are examples of non-exchange revenue.

NRCS reports the full cost of products and services generated from the consumption of resources. Unless otherwise noted, full cost is the total amount of direct and indirect resources used to produce a product or provide a service. NRCS pricing policies are set to recover full costs.

Other Information (Unaudited)

C. Pension and Other Retirement Benefits

NRCS recognizes the imputed cost of pension and other health and life insurance retirement benefits during the employee's active years of service. Office of Personnel Management (OPM) actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicates these factors and information regarding the full cost of health and life insurance benefits to NRCS for current period expense reporting.

D. Use of Estimates

Management has made certain estimates and assumptions when reporting revenue and expenses. Actual results could differ from these estimates.

Note 11 – Funds from Dedicated Collections

B. Statement of Net Cost and Statement of Net Position

NRCS recognizes Treasury accounts 12X4368, the Damage Assessment and Restoration Revolving Fund, and 12X8210, Miscellaneous Contributed Funds, as funds from dedicated collections in compliance with SFFAS 43, *Funds from Dedicated Collections*. Funds from dedicated collections are financed by specifically identified revenues which remain available over time. Financial information for these funds are presented separately in accordance with federal reporting requirements.

The Damage Assessment and Restoration Revolving Fund is privately funded and authorized by 33 U.S.C. 2706 (b) (2). The resources in this fund are available to federal and state agencies involved in restoring natural resources damaged as a result of the 2010 oil spill in the Gulf of Mexico.

Revenues from the Miscellaneous Contributed Fund are required by 7 U.S.C. 450(b) to be used for work under cooperative agreements for soil survey, watershed protection, and resource conservation and development activities. Since these funds are used to finance work by cooperators, there are very few agency expenses associated with this account.

Statement of Net Cost of Operations – Funds from Dedicated Collections
For the Year Ended September 30, 2018
(in millions)

Statement of Net Cost	Damage Assessment and Restoration Revolving Fund	Miscellaneous Contributed Funds	Total Funds From Dedicated Collections
Gross Costs	$1	$0	$1
Less: Earned Revenue	0	0	0
Net Cost of Operations	**$1**	**$0**	**$1**

Table 31: Funds from Dedicated Collections – Statement of Net Cost of Operations

Statement of Changes in Net Position – Funds from Dedicated Collections
For the Year Ended September 30, 2018
(in millions)

Cumulative Results of Operations	Damage Assessment and Restoration Revolving Fund	Miscellaneous Contributed Funds	Total Funds From Dedicated Collections
Beginning Balance	$3	$1	$4
Transfers In/Out Without Reimbursement	1	0	1
Total Financing Sources	1	0	1
Net Cost of Operations	(1)	0	(1)
Net Change	0	0	0
Cumulative Results of Operations	3	1	4
Net Position	**$3**	**$1**	**$4**

Table 32: Funds from Dedicated Collections – Statement of Changes in Net Position

Other Information (Unaudited)

Note 12 – Program Costs by Segment

NRCS primarily reflects costs through six major lines of business: Conservation Planning and Technical Assistance, Natural Resources Inventory, Natural Resources Assessment, Natural Resources Technology Transfer, Conservation Operations, and Conservation Implementation.

Program Costs by Lines of Business (in millions)	Gross Costs	Earned Revenue	Net Cost
Conservation Implementation	$2,955	$18	$2,937
Conservation Operations	741	9	732
Conservation Planning and Technical Assistance	400	6	394
Natural Resources Technology Transfer	123	5	118
Natural Resources Inventory	74	2	72
Natural Resources Assessment	9	0	9
Totals	**$4,302**	**$40**	**$4,262**

Table 33: Program Costs by Line of Business

Note 13 – Cost of Stewardship PP&E

Costs of administering the program for stewardship land amounted to $226 million for the year ended September 30, 2018. These costs consist primarily of easement acquisition costs, the costs associated with the acquisition (closing services, surveys, and due diligence activities) and restoration.

Costs for stewardship land is a combination of all costs to acquire and prepare the land for its intended use for the purpose of preserving land resources and assisting landowners in becoming better stewards of the Nation's soil, water, and related natural resources.

Note 14 – Exchange Revenues

NRCS collects exchange revenue under reimbursable agreements for technical services provided to federal and non-federal entities at the full cost of the services to be provided. Federal policy requires that non-federal customers be billed in advance for the entire amount of the agreement. Bills are issued for actual costs in accordance with terms of the underlying agreement. At the end of each quarter, accruals are recorded for the earned, unbilled portion of each agreement. An entry is recorded to estimate an allowance for possible uncollectible amounts from non-federal customers based on the historical aging of receivables.

Note 15 – Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

OMB normally distributes budgetary resources in an account or fund by specific time periods, activities, projects, or a combination of these categories through the apportionment process. Apportionments by time are classified as category A and apportionments by program, project, or activity are classified as category B.

Obligations Incurred (in millions)	Apportionment Category A	Apportionment Category B	Total
Obligations Incurred – Direct	$0	$4,956	$4,956
Obligations Incurred – Reimbursable	0	43	43
Totals	**$0**	**$4,999**	**$4,999**

Table 34: Apportionment Categories of Obligations Incurred

Note 16 – Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders are $4,769 million for the year ended September 30, 2018.

Undelivered Orders (in millions)	Federal	Non-Federal
Paid	$0	$36
Unpaid	311	4,422
Total	$311	4,458

Table 35: Undelivered Orders

Note 17 – Legal Arrangements Affecting the Use of Unobligated Balances

Under the authority provided in the 2004 and 2008 Farm Bills, NRCS generally received funding for the mandatory conservation programs with one-year authority, which would normally cause the funds to be cancelled five years after the close of the fiscal year for which they were provided. However, many of the obligations entered into with the mandatory conservation program funding do not disburse within the five-year period. Therefore, Congress has provided extended disbursement authority for these funds, which allows the agency to retain the funds and continue disbursing for valid obligations made during the period the funds were available for obligation. The extended disbursing authority does not provide the authority to enter into new obligations in FY 2018 using the unobligated balances from the expired years.

NRCS was granted extended disbursement authority for treasury symbols 1221004, 1231004, 1241004, and 1251004 by Section 766 of the Consolidated Appropriations Act, 2005 (P.L. 108-447), which stated that “Funds made available under section 1240I and section 1241(a) of the Food Security Act of 1985 in fiscal years 2002, 2003, 2004, and 2005 shall remain available until expended to cover obligations made in fiscal years 2002, 2003, 2004, and 2005, respectively, and are not available for new obligations”.

Section 752 of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2006 (P.L. 109-97) provided extended disbursement authority for treasury symbol 1261004. Section 752 stated that “Funds made available under section 1240I and section 1241(a) of the Food Security Act of 1985 in the current fiscal year shall remain available until expended to cover obligations made in the current fiscal year, and are not available for new obligations”. Sections 101 and 102 of the Revised Continuing Appropriations Resolution, 2007 (P.L. 110-5), provided extended disbursement authority for treasury symbol 1271004.

Section 725 of the Consolidated Appropriations Act, 2008 (P.L. 110-161) provided extended disbursement authority for treasury symbol 1281004. Section 725 stated in part that “Funds made available under section 1240I and section 1241(a) of the Food Security Act of 1985 in the current fiscal year shall remain available until expended to disburse obligations made in the current fiscal year”. In addition, Section 725 provided extended disbursement authority for “Funds made available under Section 524 (b) of the Federal Crop Insurance Act, 7 U.S.C. 1524(b), in fiscal years 2004, 2005, 2006, 2007, and 2008 and shall remain available until expended to disburse obligations made in fiscal years 2004, 2005, 2006, 2007, and 2008, respectively, and are not available for new obligations”.

Section 720 of the Omnibus Appropriations Act, 2009 (P.L. 111-8) provided extended disbursement authority for treasury symbol 1291004. Section 720 states "Funds made available under section 1240I and section 1241(a) of the Food Security Act of 1985 and section 524(b) of the Federal Crop Insurance Act, 7 U.S.C. 1524(b), in the current fiscal year shall remain available until expended to disburse obligations made in the current fiscal year".

Finally, Section 719 of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2010 states "Funds made available under section 1240I and section 1241(a) of the Food Security Act of 1985 and section 524(b) of the Federal Crop Insurance Act, 7 U.S.C. 1524(b), in the current fiscal year shall remain available until expended to disburse obligations made in the current fiscal year.

The majority of the unobligated balances in treasury symbols 1213322, 1221004, and 1231004 were returned to the Treasury in FY 2009. Beginning in FY 2009, the unobligated balances for treasury symbols with extended disbursing authority were not cancelled at end of the fifth expired year. Instead the unobligated balance remains in expired status until the treasury symbol is closed or expended, in accordance with OMB Circular A-11.

The 2014 Farm Bill changed the period of availability for most of the mandatory conservation programs (except the Agriculture Management Assistance program) from one-year to no-year funding. Thus, extended disbursing authority will no longer be needed for these funds in FY 2018 and beyond. In addition, the 2014 Farm Bill repealed five mandatory conservation programs (Agricultural Water Enhancement Program, Farm and Ranch Lands Protection Program, Grassland Reserve Program, Wildlife Habitat Incentive Program, and Wetlands Reserve Program) and restored the authority to obligate expired unobligated balances from FYs 2009 through 2013 for these five repealed programs. These funds are to be used to complete implementation of contracts and easements entered into prior to the repeal of the programs. This resulted in offsetting reappropriation transfers in the amount of $753 million from the one-year treasury symbols to the no-year treasury symbol.

Note 18 – Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

The differences between the unaudited FY 2017 SBR and the FY 2017 actual numbers presented in the FY 2019 Budget of the United States Government are summarized in the table below. The President's Budget with actual numbers for FY 2019 has not yet been published. Upon release of the FY 2020 budget, it will be available at the OMB website. OMB Circular A-136 states that the reconciliation should identify and explain material differences between amounts reported in the SBR and actual amounts reported in the Budget of the United States Government as required by U.S. GAAP.

Budget Reconciliation (in millions)	Budgetary Resources	Obligations Incurred	Net Outlays
Statement of Budgetary Resources (unaudited)	$9,437	$4,839	$3,758
Reconciling Items			
Expired Accounts not reflected in the Budget	(2,600)	(11)	0
Distributed Offsetting Receipts not reflected in the Budget	0	0	5
Other	(1)	(2)	(1)
Budget of the U.S. Government	**$6,836**	**$4,826**	**$3,762**

Table 36: Explanation of Differences Between SBR and the Budget of the US Government

Note 19 – Reconciliation of the Net Cost of Operations to Budget

Budgetary and proprietary accounting are inherently different because of the types of information and the timing of their recognition. The reconciliation of budgetary resources obligated and the net cost of operations provides a link between budgetary and proprietary accounting information. It serves not only to explain how information on net obligations relates to the net cost of operations, but also to assure integrity between budgetary and proprietary accounting.

Net obligations and the net cost of operations are different because (1) the net cost of operations may be financed by non-budgetary resources (e.g., imputed financing); (2) the budgetary and non-budgetary resources used may finance activities which are not components of the net cost of operations; and (3) the net cost of operations may contain components which do not use or generate resources in the current period.

	Intragovernmental	With the Public	Total
Net Operating Cost – Statement of Net Cost	**$644**	**$3,618**	**$4,262**
Components of Net Operating Costs Not Part of Budgetary Outlays:			
Property, Plant, and Equipment Depreciation	0	(20)	(20)
Property, Plant, and Equipment Disposal and Reevaluation	0	3	3
Increases to Internal-Use Software in Development	0	17	17
Increase/(Decrease) in Assets			
Accounts Receivable	0	1	1
Other Assets	0	(6)	(6)
(Increase)/Decrease in Liabilities Not Affecting Budget Outlays			
Accounts Payable	(1)	7	6
Other Liabilities (Unfunded Leave, FECA)	13	(160)	(147)
Other Financing Sources			
Federal Employee Retirement Costs Paid by OPM and Imputed to the Agency	(128)	0	(128)
Total Components of Net Operating Cost That Are Not Part of Budgetary Outlays	$(116)	$(158)	$(274)
Components of Budgetary Outlays That Are Not Part of Net Operating Cost			
Acquisition of Capital Assets	0	(2)	(2)
Total Components of Budgetary Outlays That Are Not Part of Net Operating Cost	$0	$(2)	$(2)
Net Outlays	$528	$3,458	$3,986
Related Amounts on the Statement of Budgetary Resources			
Outlays, Gross			$4,027
Actual Offsetting Collections			(36)
Distributed Offsetting Receipts			(5)
Outlays, Net			**$3,986**

Table 37: Reconciliation of Budgetary Resources Obligated to the Net Cost of Operations

National Resources Conservation Service

Combined Statement of Budgetary Resources by Major Budget Account

For the Year Ended September 30, 2018
(in millions)

Budgetary Resources:	Farm Bill	Conservation Operations	Watershed & Flood Prevention	Watershed Rehabilitation	Other	Total
Unobligated balance from prior year budget authority, net (Note 17)	4,252	$216	421	31	5	4,925
Appropriations (discretionary and mandatory)	3,567	874	691	66	4	5,202
Spending authority from offsetting collections (discretionary and mandatory)	22	21	18	4	0	65
Total budgetary resources (Note 17)	$7,841	$1,111	$1,130	$101	$9	$10,192
Status of Budgetary Resources						
New Obligations and Upward Adjustments (Note 15)	$3,743	$851	$339	$61	$5	$4,999
Unobligated Balance, end of year:						
Apportioned, unexpired accounts	1,550	159	798	39	4	2,550
Unapportioned, unexpired accounts	0	0	(7)	0	0	(7)
Unexpired, unobligated balance, end of year	1,550	159	791	39	4	2,543
Expired, Unobligated Balance, end of year	2,548	101	0	1	0	2,650
Total Unobligated balance, end of year	4,098	260	791	40	4	$5,193
Total budgetary resources (Note 17)	$7,841	$1,111	$1,130	$101	$9	$10,192
Outlays, Net:						
Outlays, net (discretionary and mandatory)	3,082	783	84	39	3	3,991
Distributed offsetting receipts	0	0	0	0	(5)	(5)
Agency Outlays, net (discretionary and mandatory)	3,082	783	84	39	(2)	3,986

Other Information (Unaudited)

Management Challenges

In Fiscal Year 2018 the Reports Consolidation Act of 2000 required the USDA Office of Inspector General (OIG) to report annually on the most serious management challenges faced by USDA and its agencies. The following management challenges were identified and related to NRCS in the FY 2018 Management Challenges Report:

Management Challenge 1: USDA Needs to Improve Oversight and Accountability for its Programs

USDA agencies have made improvements in program oversight and accountability when deficiencies have been identified. However, NRCS and two other USDA agencies lack adequate planning and coordination in a data collection effort known as the Acreage Crop Reporting Streamlining Initiative (ACRSI). The goals of ARCSI are to provide a streamlined data collection method and data repository to reduce the reporting burden on producers, and to share common farm program data across participating agencies. However, OIG found that development efforts did not include: (1) adequate project management, (2) a schedule to track measures and milestones, and (3) Office of the Chief Financial Officer on a regular basis. The USDA agencies concurred with the recommendation to assign oversight of ACRSI to a Department-level entity and to update the ACRSI charter to reflect this new role. The recommendation was implemented and is now closed.

Management Challenge 3: USDA Needs to Strengthen Program Performance and Performance Measures

OIG found that agencies do not have adequate reviews or controls in place to evaluate program performance. OIG mentioned the NRCS Conservation Stewardship Program (CSP) in this context and recognized improved sharing and collaboration efforts related to the program. NRCS can determine eligibility for the CSP program using the same information that the Farm Services Agency (FSA) uses for its programs. However, NRCS was not using FSA data to the extent needed to verify program eligibility, payment amounts, and participant compliance with contracts. OIG also found that NRCS did not have adequate controls to detect erroneous participant-reported information affecting CSP eligibility and payment amounts.

OIG recommended better collaboration between NRCS and other USDA agencies in its compliance strategy to identify common information of use in multiple programs. This recommendation was implemented and closed.

Management Challenge 4: USDA Needs to Strengthen Controls Over Improper Payments and Financial management

OIG wrote that about ongoing material weaknesses found in annual financial reviews of NRCS, such as deficiencies in internal controls related to the accounting for obligations and expenses. OIG noted significant gains by NRCS toward resolving these problems, but some corrective actions remain in process. NRCS addressed this challenge in FY 2018 by 1) enhancing processes and systems to prevent invalid downward and upward obligation adjustments, and 2) improving its methodology for accruing expenses.

Summary of Financial Statement Audit and Management Assurances

Summary of Existing Material Weaknesses

NRCS's previous and existing material weaknesses and lack of compliance with the Federal Financial Management Improvement Act are listed in the following tables. Note that in the prior year, only three material weaknesses existed, but the one related to Financial Operations had two subsets – one subset was resolved and one subset remains open.

Summary of Financial Statement Audit					
Audit Opinion	Unmodified Balance Sheet				
Restatement	No				
Material Weakness	Beginning Balance	New	Resolved	Unconsolidated	Ending Balance
Improved Accounting and Controls Needed Over Obligations and Undelivered Orders	1				1
Improved Accounting and Controls are Needed over Expenses	1				1
TOTAL MATERIAL WEAKNESS	**2**				**2**

Table 38: Summary of Financial Statement Audit

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
1. System Requirements	No lack of substantial compliance noted	No lack of substantial compliance noted
2. Applicable Federal Accounting Standards	Lack of Compliance Noted	Lack of Compliance Noted
2. USSGL at Transaction Level	Lack of Compliance Noted	Lack of Compliance Noted

Table 39: FFMIA Compliance

Other Information (Unaudited)

Payment Integrity

Background

Payment integrity means ensuring payments made to people on behalf of government are managed correctly and that appropriate internal controls and checks and balances exist to minimize the likelihood of errors. When non-fraudulent payment errors occur, we refer to them as improper payments.

OMB Memorandum M-15-02 defines an improper payment as any payment that should not have been made or that was supposed to be made, but is in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for an incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.

Agencies must report information on payment integrity, disclosing payments that were processed correctly and those payments that were improper. Since the Improper Payments Information Act (IPIA) of 2002, OMB has worked with agencies to increase the number of Federal payments to the right person, amount, and date. The IPIA, as amended by the Improper Payments Elimination and Recovery Act of 2010, and the Improper Payments Elimination and Recovery Improvement Act of 2012, requires agencies to annually report information on improper payments to the President and Congress through their annual Performance and Accountability Report (PAR) or Annual Financial Report (AFR). In addition, more detailed information on improper payments and all of the information previously reported in the PAR or AFR that is not included in the FY 2018 PAR or AFR may be found at https://paymentaccuracy.gov/.

Payment Reporting

NRCS's Farm Security and Rural Investment Act Program payments include conservation related financial and technical assistance to landowners, as well as payroll expenses to NRCS employees. All payments related to this program are considered high risk and are collectively referred to as Farm Bill payments. NRCS's improper payment rate for Farm Bill payments was .83 percent. NRCS's Disaster Relief payments related to Hurricane Sandy were not tested in FY 2018 since they are no longer considered high risk.

FY 2018				
Program	Total Outlays	Proper	Improper	% Improper
Farm Bill	$2,570.96	$2,549.69	$21.27	.83%

Table 40: Improper Payments ($ Millions)

The following chart shows the amount of improper payments that resulted in an overpayment, an under payment, and the corresponding percent for each by program or activity.

FY 2018			
Program	Overpayments	Underpayments	% Improper
Farm Bill	$21.27	$0	.83%

Table 41: Improper Payments by Type ($ Millions)

The following chart shows the amount of improper payments made directly by the Federal Government and the amount of improper payments made by recipients of federal money by program or activity.

FY 2018			
Program	Federal Government	Recipients of Federal Money	IP%
Farm Bill	$21.27	$0	.83%

Table 42: Improper Payments by Distributor ($ Millions)

The following chart summarizes the root causes of the improper payments for the Farm Bill programs.

Root Causes of Improper Payments		Overpayment (%)	Overpayment ($ Millions)
Failure to Verify: Other Eligibility Data	Program eligibility was not verified	57%	$12.12
Administrative or Process Error Made by Federal Agency	Documentation was not available to confirm the contract and/or payment was authorized in accordance with NRCS policy and procedures.	43%	$9.15
Total		**100%**	**$21.27**

Table 43: Root Causes of Improper Payments

Future Outlays and Reduction Targets

The following chart depicts future year outlays and reduction targets for the next fiscal year.

Future Improper Payment Estimates (in millions)	FY 2019		
Program	Outlays	IP%	IP$
Farm Bill	$3,439	.82%	$28

Table 44: Future Outlays and Improper Payment Estimates for NRCS's High Risk Programs

Recapture of Improper Payment Reporting

USDA spearheads efforts to recapture improper payments on behalf of each USDA agency. With the assistance of contractors, USDA conducted limited scope Supplier Credit Recovery Audits, as recommended by OMB Circular A-123, Appendix C. NRCS's programs are included in the USDA Supplier Credit Recovery Audit Program. USDA recaptured all improper payments identified through the program.

NRCS also recaptures funds outside of the Department's payment recapture audit process. States and centers are required to submit improper payment documentation as improper payments are identified to ensure collection efforts are initiated and pursued. Types of improper payments include payments regarding ineligible land, ineligible participants, duplicate payments, and payments to the wrong payee.

NRCS actively pursues improper payments. If improper payments are discovered that result in monetary loss to the government, NRCS takes aggressive steps to recover the funds. A demand letter is sent to participants explaining that an improper payment has been made and requesting that the funds be returned to NRCS. As a follow-up to the demand letter, a bill is sent to the participant requesting payment within 30 days. Participants may appeal, but if the appeal efforts prove unsuccessful, the participant must repay the amount in full. If the debt is not paid within 120 days, the debt will be referred to the U.S. Department of the Treasury's Treasury Offset Program for collection. Once this happens, before a debtor receives a payment from any federal source (e.g., tax refunds), the debt will be withheld from the federal payment and returned to NRCS.

The table below depicts improper payments identified and recovered outside of payment recapture audits:

Improper Payment Amount Identified Current Year	Improper Payment Amount Recovered Current Year
$3,511,602	$1,108,192

Table 45: Improper Payments and Recoveries from July 1, 2017 to June 30, 2018 (in dollars)

Disposition of Funds Recaptured Through Recapture Audit (in dollars)									
Program or Activity	Amount Recovered	Type of Payment	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury	Other (Funds have not been distributed)
Supplier Credit Recovery Audit Program	$22,943	Contracts	$0	$0	$0	$0	$0	$0	$22,943
Overpayments Recaptured Outside of Payment Recapture Audits	$1,108,192	Various	$0	$0	$0	$1,108,192	$0	$0	$0

Table 46: Disposition of Funds Through Recapture Audit

Agency Improvement of Payment Accuracy with the Do Not Pay Initiative

NRCS is currently utilizing Treasury's Do Not Pay (DNP) portal to identify potential improper payments. On a monthly basis, Treasury provides the Department a data file of payments made to individuals and entities that are included on the Death Master File or the Excluded Parties List System. The Department provides the payment matching data to NRCS. NRCS researches the payments to determine if improper payments were made and initiates collection activities as appropriate.

Though NRCS utilizes the DNP portal on a post-payment basis, pre-award checks for contracts and grants are still performed directly through the System for Award Management Registration rather than through the DNP portal. The primary reason for this is NRCS's extensive use of system interfaces in our business processes. In FY 2018, NRCS did not identify any improper payments via the DNP portal.

Sampling and Estimation

NRCS designed and selected quarterly statistical payment samples to estimate the percentage of improper payment dollars. The sampling methodology was developed in accordance with the Improper Payments Elimination and Reduction Improvement Act (IPERIA) of 2012, Improper Payments Elimination and Recovery Act (IPERA) of 2010, the Improper Payments Information Act (IPIA) of 2002, and the sampling guidance provided in the Office of Management and Budget (OMB) Circular A-123 Appendix C as revised by OMB document M-15-02. The goal of this review is to obtain an overall estimate of the percentage of improper payment dollars within +/- 2.5 percent precision at the 90 percent confidence level.

By performing quarterly sample testing, NRCS is able to obtain quarterly results in a timely manner providing the ability to identify issues and implement corrective actions to reduce improper payments on an ongoing basis.

In FY 2018, NRCS statistically sampled and tested 1,196 Farm Bill transactions based on FY 2017 outlays of $2,570,963,528. Improper payments totaling $2,849,837 were identified and extrapolated to the entire Farm Bill population, resulting in an estimated $21,273,490 of improper payments.

Testing criteria was applied to verify the following:

- Recipient was eligible for payment;
- Payment was made to the proper recipient;
- Payments issued for goods and/or services were delivered within the appropriate period of performance;
- Payments were made for the goods and/or services that were reflected on the contract documents;
- Payment amounts are equal to or less than the contract amount (not in excess of contract amount);
- Appropriate documentation (when applicable) contains the eligible recipient's signature;
- An NRCS official's signature acknowledging receipt of goods and/or services is present;
- Payment amounts agree to invoice amounts/payment requests; and
- Payments were supported by adequate program specific documentation.

Fraud Reduction Report

NRCS is committed to reducing fraud. NRCS continued its previously established fraud reduction efforts in FY 2018. NRCS's fraud reduction efforts include the following:

Risk Assessment

The A-123 Appendix A, Assessment of Internal Control over Financial Reporting, annual risk assessment incorporates specific internal and external fraud risk questions in the "Inherent Risk Considerations" section. The questions allow the respondent to rate the risk of the NRCS's process as either highly susceptible, susceptible or not susceptible to fraud. The overall risk rating is dependent on the responses and tallied along with other risk responses to determine the level and frequency of testing.

Additionally, as a requirement of the Statement on Auditing Standards (SAS) No. 122, Clarification and Recodification, specifically AU Section 240, Consideration of Fraud in a Financial Statement Audit, the Office of the Chief Financial Officer disseminates and consolidates responses to a fraud questionnaire among USDA's financial community. NRCS completes the questionnaire and submits it to USDA.

Technology

The A-123 Appendix A, annual assessment includes several automated continuously monitored financial controls. The controls are configured in the USDA financial system to detect potential fraud/misuse. Configuration changes are immediately reported as exceptions to responsible control owners and first line supervisors, and the Internal Controls Division has the ability to run real-time system reports to further monitor exceptions. An oversight workflow is established where the OCFO's Internal Audit and Compliance Group is responsible for assigning remediation tasks to correct any exception issues. Reports are available to be communicated to NRCS management.

Entity Level Controls

NRCS completes an annual Entity Level Control (ELC) assessment. The ELC assessment was recently updated to comply with the most current Government Accountability Office (GAO) – Standards for Internal Control in the Federal Government ("Green Book"). The assessment includes GAO principle eight, which assesses fraud risk. Attributes include: types of fraud, fraud risk factors and responses to fraud risks. Objectives include: identifying fraud risks based on fraud risk factors; assessing identified fraud risks for significance; and properly responding to identified fraud risks.

Access Controls

USDA's consolidated financial systems' access controls are managed through the Governance Risk and Compliance (GRC) Access Control module. Access controls are configured such that conflicting accounting roles are prohibited, unless there is an immediate need that is fully documented, mitigated and supported by compensating controls. USDA reviews and approves NRCS's mitigating controls to ensure that control strategies are properly documented and implemented.

Segregation of Duties (SOD)

The USDA's consolidated financial system is configured such that conflicting roles are prohibited, which ensures proper SOD. Those who initiate a transaction in the financial system are not allowed to also approve that same transaction. There are also financially significant, NRCS specific SOD controls that are documented and tested annually during the A-123, Appendix A assessment. The strict prohibition of conflicting roles reduces the risk of fraud.

Transactional Control Objectives to Reduce Fraud Risk

The A-123 Appendix A, Assessment of Internal Control over Financial Reporting ensures the following fraud related control objectives are met. These control objectives are documented and tested. Corrective action plans are created and monitored for failed controls.

Process	Objective	Risk
Awards Contracts	Contracts are awarded to eligible vendors (includes Do Not Pay verification).	Contracts are awarded to inactive vendors or vendor record not found in the financial system (includes Do Not Pay verification).
Charge Card Issuance	Employees assigned as Approving Officials for purchase card transactions are authorized.	Employees assigned as Approving Officials for purchase card transactions are not authorized.
Disbursements	Disbursements are valid and supported by sufficient and relevant documentation.	Disbursements are not valid and not supported by sufficient and relevant documentation.
Grant Awards and Modifications	Grants are awarded to eligible recipients (includes Do Not Pay verification).	Grants are awarded to ineligible recipients (includes Do Not Pay verification).
Monitoring – Charge Card Cycle	Duties are adequately segregated.	Users are able to perform incompatible duties.
Monitoring - Fleet Card	Fleet card transactions adhere to Federal laws and regulations within the terms of the fleet card agreement.	Fleet card transactions do not adhere to Federal laws and regulations within the terms of the fleet card agreement.
Monitoring - Purchase Card	Purchase card transactions adhere to Federal laws and regulations within the terms of the purchase card agreement.	Purchase card transactions do not adhere to Federal laws and regulations within the terms of the purchase card agreement.
Monitoring - Travel Card	Travel card transactions adhere to Federal laws and regulations within the terms of the purchase card agreement.	Travel card transactions do not adhere to Federal laws and regulations within the terms of the purchase card agreement.
Payroll Processing	Amounts recorded in the general ledger for payroll are accurate, valid, and properly supported by sufficient and relevant documentation.	Amounts recorded in the general ledger for payroll are not accurate, valid, or properly supported by sufficient and relevant documentation.
Relocation Allowance	Claims for relocation expenses are timely reviewed for completeness and accuracy in accordance to agency directives and Federal Travel Regulation (FTR) requirements.	Claims for relocation expenses are not timely reviewed for completeness and accuracy in accordance to agency directives and FTR requirements.

Table 47: Financial Transactions Tested to Assess Risk of Fraud

Reduce the Footprint

OMB Memorandum 12-12, *Promoting Efficient Spending to Support Agency Operations,* requires Chief Financial Officers Act entities must set annual targets to reduce total square footage of domestic office inventory compared to the baseline year.

The FY 2015 baseline square footage value was reported erroneously in previous years and has been revised. Operation and maintenance costs decreased less than one percent over the past four years. The reason for the increase in costs in view of the reduction in square footage primarily due to rising real property rental rates.

	FY 2015 Baseline	FY 2018	Change (2015-2018)
Office and Warehouse Square Footage	3,451,289	3,447,682	(3,607)

Table 48: Reduce the Footprint Baseline Comparison

	FY 2015 Baseline (in dollars)	FY 2018 (in dollars)	Change (2015-2018)
Operation and Maintenance Costs	$35,403,163	$35,432,258	$29,095

Table 49: Operations and Maintenance Costs - Owned and Direct Lease Buildings

Grants Oversight & New Efficiency (GONE) Act Requirements

The objective of the GONE Act is to expedite the timely closure of expired grants. Federal agencies must identify grants and cooperative agreements as of September 30, 2017, for which closeout has not yet occurred but for which the period of performance has elapsed by more than two years. Federal regulations state that agencies should complete closeout actions for federal grants and cooperative agreements no later than one year after receipt and acceptance of all required final reports. Although agencies are not explicitly required to complete closeout activities within one year, agencies are required by the GONE Act to explain why closeout has not occurred within the one-year time frame.

In complying with the GONE Act, NRCS lists the total number of grant and cooperative agreement awards and balances for which closeout has not yet occurred but for which the period of performance has elapsed by more than two years.

Category	2-3 Years	>3-5 Years	>5 Years
Number of Grants and Cooperative Agreements with Zero Dollar Balances	0	0	0
Number of Grants and Cooperative Agreements with Undisbursed Balances	119	820	229
Total Amount of Undisbursed Balances	$602,226	$815,858	$158,288

Table 50: Grants/Cooperative Agreements Not Closed and the Period of Performance Has Elapsed By More Than Two Years (amounts in dollars)

NRCS has reduced the balances of the subject grants and agreements by forty two percent since September 30, 2017. Challenges leading to the delay in grant and cooperative agreement closeout include staffing shortages in the NRCS Grants and Agreement Service Branch. Because of the shortages, a priority is placed on processing new agreements, which limits the amount of staff time for agreement closeout. More resources will be provided to agreement closeout in FY 2019, including enlisting contractor support. Closing out these agreements is an agency priority.

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