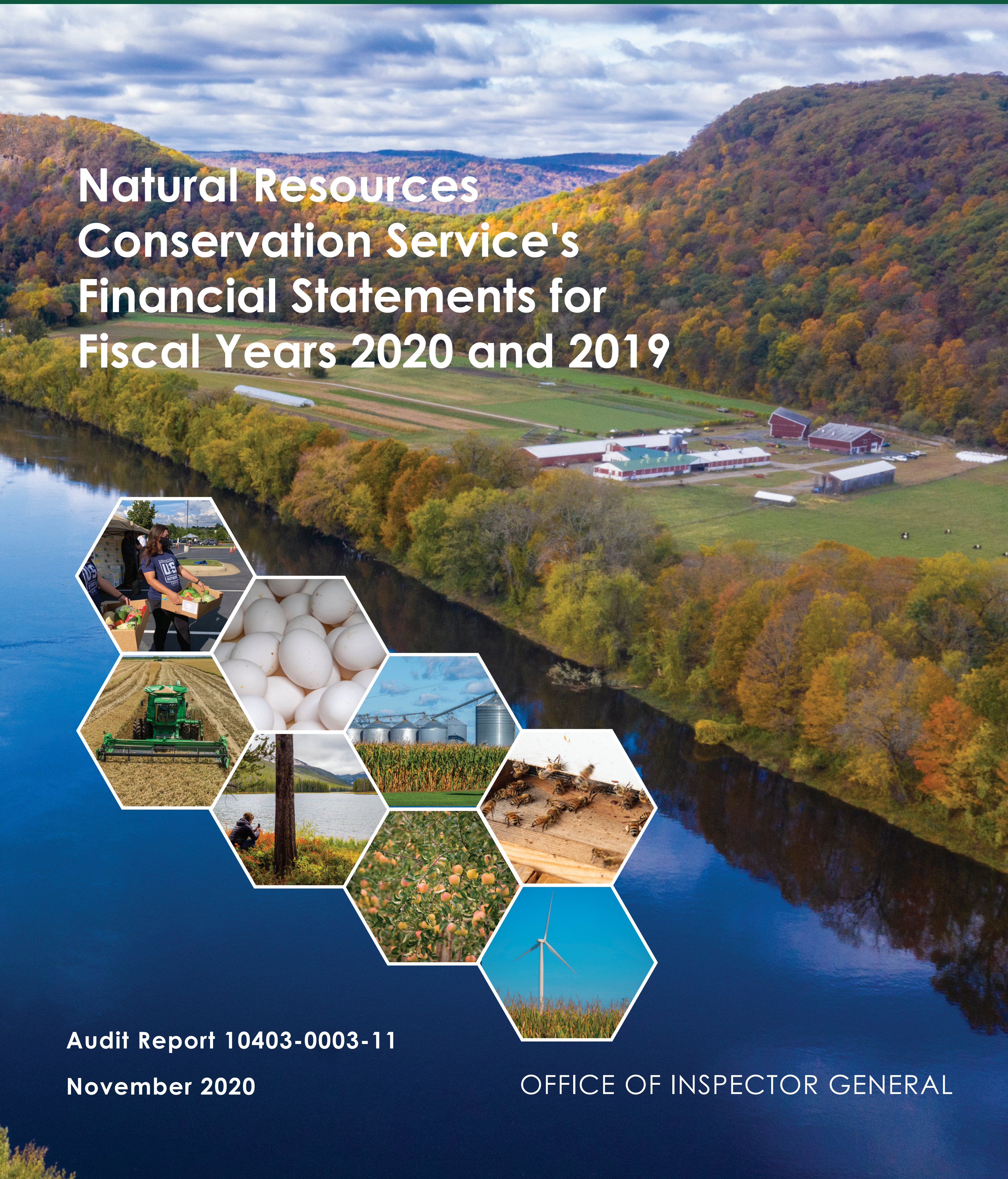
United States Department of Agriculture

Natural Resources Conservation Service's Financial Statements for Fiscal Years 2020 and 2019



Audit Report 10403-0003-11

November 2020

OFFICE OF INSPECTOR GENERAL

USDA **OFFICE OF INSPECTOR GENERAL**

United States Department of Agriculture

DATE: November 19, 2020

AUDIT NUMBER: 10403-0003-11

TO: Kevin Norton
Acting Chief
Natural Resources Conservation Service

ATTN: Margo Erny
Chief Financial Officer
Farm Production and Conservation Business Center

Gary Weishaar
Branch Chief for the External Audits
And Investigations Division
Natural Resources Conservation Service

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Natural Resources Conservation Service's Financial Statements for Fiscal Years 2020 and 2019

This report presents the results of the audits of Natural Resources Conservation Service's (NRCS) financial statements for the fiscal years ending September 30, 2020 and 2019. The report contains an unmodified opinion on the consolidated financial statements, 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' consolidated financial statements; 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 16, 2020, 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 19-03, *Audit Requirements for Federal Financial Statements*.

It is the opinion of KPMG LLP, that the consolidated financial statements present fairly, in all material respects, NRCS' financial position as of September 30, 2020 and 2019, and its net cost, changes in net position, and budgetary resources and the related notes to the consolidated financial statements in accordance with accounting principles generally accepted in the U.S.

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

- controls over obligations and undelivered orders;
- controls over expenses; and
- entity level controls.

KPMG LLP considered all three 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 and for the fiscal years ending
September 30, 2020 and 2019

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

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the United States Department of Agriculture (USDA), Natural Resources Conservation Service (NRCS), which comprise the consolidated balance sheets as of September 30, 2020 and 2019, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, 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 consolidated financial statements 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 consolidated financial statements.

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the United States Department of Agriculture, Natural Resources Conservation Service as of September 30 2020 and 2019, and its net costs, changes in net position, and budgetary resources for the years then ended 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 statements. Such information is not a required part of the basic consolidated financial statements 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 and Required Supplementary Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements 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 consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. 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 audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The Table of Contents, Message from the Acting Chief, and the Other Information section are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, 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 consolidated financial statements as of and for the year ended September 30, 2020, we considered the NRCS' internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NRCS' internal control. Accordingly, we do not express an opinion on the effectiveness of the NRCS' 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.

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 deficiency, or 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' consolidated financial statements as of and for the year ended September 30, 2020 are 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 financial statements. 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. 19-03.

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' 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 results of our tests disclosed no instances in which the NRCS' financial management system did not substantially comply with the Federal financial management systems requirement.

NRCS' Management Response to Findings

NRCS' management response to the findings identified in our audit are described in Exhibit III. NRCS' management response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements 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 results of that testing, and not to provide an opinion on the effectiveness of the NRCS' internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
November 16, 2020

MATERIAL WEAKNESSES

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

Natural Resources Conservation Service's (NRCS) management continues to perform ongoing remediation efforts to resolve prior years' findings with respect to undelivered orders (UDOs). Despite the ongoing remediation efforts, NRCS continues to lack effective internal controls to ensure the completeness and accuracy of its budgetary account balances reported in the financial statements. Specifically, internal controls were not designed and implemented, or operating effectively to ensure timely and accurate recording of obligations.

During fiscal year (FY) 2020, internal controls were not effective to ensure the:

- Timely and accurate recording of obligations and liquidations including related journal vouchers, and meeting established timeline for the timely resolution of obligations from the Unliquidated Obligations (ULO) report;
- Maintenance and availability of sufficient documentation to support budgetary activities, such as obligations, de-obligations, modifications, and recoveries of prior year obligations; and
- Complete and accurate population of obligations in the calculation of the corporate accrual estimate.

Specifically, during FY 2020:

- Two exceptions were identified that should have been recorded to the October 1, 2019 beginning balance of UDOs. The factual and projected amount for the two exceptions totaled $3.7 million and $38.9 million, respectively.
- As a result of testing the FY 2020 UDO activities, an additional five exceptions out of a sample of 433 items were identified that resulted from a lack of supporting documentation, invalid obligations, and untimely adjustments for work delivered. The factual and projected amount for the five exceptions totaled $465 thousand and $3.9 million, respectively.

Management's ability to fulfill its financial reporting responsibilities significantly depends on the design and effectiveness of internal control over financial reporting. These internal control deficiencies increase the risk of material misstatements in the general ledger and noncompliance with the Antideficiency Act.

The exceptions described above occurred because of a lack of:

- Sufficient training and consistent execution of processes and control activities as designed and implemented; and
- Functionality in the Financial Management Modernization Initiative (FMMI) general ledger system to permit for modification to the period of performance for existing obligations.

The Government Accountability Office's, *Standards for Internal Control in the Federal Government* (Green Book), Principle 10 – Design Control Activities, states:

- 10.03: Management designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system.

- 10.03: Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.

Recommendations Related to Controls Over Obligations and Undelivered Orders:

We continue to recommend that NRCS management:

1. Refine and implement necessary enhancements to FMMI processes to better address the reliability of the period of performance data. (*Recommendation 1 of Audit Report No 10403-0002-11, November 2019*);
2. Develop and implement a process that tracks agreement progress to ensure all signed agreements have been recorded in the general ledger (*Recommendation 1B of Audit Report No. 10401-0009-11, November 2017*);
3. Monitor open obligations (USSGL accounts 4801, *Undelivered Orders – Obligations, Unpaid*, and 4802, *Undelivered Orders – Obligations, Prepaid/Advanced*) 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
4. Provide adequate training to personnel related to the documentation requirements for support transactions (*Recommendation 1C of Audit Report No. 10401-0003-11 December 2013*).

We recommend that NRCS management:

5. Develop and implement a process that ensures NRCS is utilizing a complete and accurate obligation population for the calculation of the corporate accrual, and formally document an analysis of any differences that are identified from the review.

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

Improved Controls are Needed Over the Review and Recording of Expense Transactions

NRCS lacks sufficient internal control policies and procedures related to the review of expense activities 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).

NRCS does not have adequate procedures in place to determine if the non-responses related to the ULO report open obligations should be included as expenses that should be accrued at period end.

When testing FY 2020 expense transactions, sixteen exceptions were identified in a sample of 400 items:

- Three exceptions related to expenses recorded in the current fiscal year that were not properly accrued in the prior fiscal year with total factual and projected amounts of error of $1.4 million and $2.4 million, respectively;
- One exception related to a transaction with future economic benefits (i.e., pre-paid expense) recorded as current fiscal year expense resulting in a factual error in the amount of $998 thousand; and
- 12 exceptions related to transactions that were not appropriately reclassified from expenses to Internal Use Software (IUS) in Development (i.e., asset). As a result of the identified findings, management performed an analysis over IUS and recorded a $60 million adjustment.

The expense exceptions above occurred because:

- NRCS personnel are not consistently executing policies and procedures (internal controls) for the recording of easements, accruals and liquidations as designed and implemented, leading to expenses being inaccurately recorded in the general ledger in a timely manner;
- A lack of sufficient training on process execution by NRCS process owners related to the recording of transactions with future economic benefits (i.e., pre-paid expenses and/or asset);
- NRCS does not have adequate procedures in place to determine if field offices that did not respond to the expense accruals (relating to obligations) request analyzed whether there is a material effect on the financial statements; and
- Management lack the appropriate policies and procedures to identify and capitalize the cost of internal use software – whether it is commercial-off-the-shelf, contractor-developed, or internally developed, in a timely manner.

The Government Accountability Office's, *Standards for Internal Control in Federal Government* (Green Book), Principle 6 – Define Objectives and Risk Tolerances, states:

- 6.02: Management defines objectives in specific and measurable terms to enable the design of internal control for related risks.
- 6.03: Management defines objectives in specific terms so they are understood at all levels of the entity. This involves clearly defining what is to be achieved, who is to achieve it, how it will be achieved, and the time frames for achievement.
- 6.04: Management defines objectives in measurable terms so that performance toward achieving those objectives can be assessed. Measurable objectives are generally free of bias and do not require subjective judgments to dominate their measurement. Measurable objectives are also stated in a quantitative or qualitative form that permits reasonably consistent measurement.

The Government Accountability Office's, *Standards for Internal Control in Federal Government* (Green Book), Principle 10 – Design of Control Activities, states:

- 10.03: Management designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system.
- 10.03: Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.

Recommendations Related to Controls Over Expenses:

We continue to recommend that NRCS management implement corrective action over the following:

6. 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);
7. Provide adequate training to personnel relating to the accrual policy (Recommendation 3A of Audit Report No. 10401-0005-11, November 2015); and
8. Provide additional guidance and/or training to employees over the recording of transactions with future economic benefits (Recommendation 2C of Audit Report No. 10403-0001-11, November 2018).

We recommend that NRCS management:

9. Implement policies and procedures to perform a quarterly analysis over open obligations marked for review that received no responses from responsible parties to determine if a material amount is being omitted from accrued expenses; and
10. Design, implement, and document policies and procedures to ensure that internal use software is completely and accurately recorded in the general ledger. Such policies and procedures should include a requirement for vendor invoices to be in sufficient detail to provide management with information needed to determine whether incurred costs satisfy the capitalization criteria, as required by Federal Accounting Standards Advisory Board.

Improved Controls are Needed Over the Monitoring of Service Organization Reports

NRCS management did not have controls designed and implemented to appropriately evaluate Service Organizations Controls (SOC) reports utilized by NRCS as part of its internal control environment, including the United States Department of Agriculture (USDA) National Finance Center (NFC) and the Federal Reserve Bank of St. Louis. Specifically, NRCS did not sufficiently and consistently evaluate control deficiencies, subservice organizations and relevant complementary user entity controls (CUECs) as identified in the SOC reports and consider the impact of these matters at service organizations to NRCS' control environment and control activities.

NRCS lacks detailed control policies and procedures to ensure that its service organizations' and respective subservice organizations' SOC reports are properly reviewed for internal control results. While NRCS continued to implement corrective actions to address matters identified from FY 2019, including appointing a dedicated team to appropriately review SOC reports and creating a Standard Operating Procedure to document the review of these reports, NRCS continues to inconsistently evaluate control deficiencies and SOC reports for its service and subservice organizations. For example, NRCS appropriately evaluated control deficiencies and the SOC report for USDA Financial Management Services (FMS), which houses the Financial Management Modernization Initiative (FMMI) general ledger system; however, NRCS did not appropriately evaluate control deficiencies or the SOC report for NFC or the Federal Reserve Bank of St. Louis.

The Government Accountability Office's, Standards for Internal Control in the Federal Government (Green Book), Principle 10 – Design Control Activities, states:

- 10.02: As part of the risk assessment component, management identifies the risks related to the entity and its objectives, including its service organizations; the entity's risk tolerance; and risk responses. Management designs control activities to fulfill defined responsibilities and address identified risk responses.

The Government Accountability Office's, Standards for Internal Control in the Federal Government (Green Book), Principle 16 – Perform Monitoring Activities, states:

- 16.08: Management retains responsibility for monitoring the effectiveness of internal control over the assigned processes performed by service organizations. Management uses ongoing monitoring, separate evaluations, or a combination of the two to obtain reasonable assurance of the operating effectiveness of the service organization's internal controls over the assigned process. Monitoring activities related to service organizations may include the use of work performed by external parties, such as service auditors, and reviewed by management.

The deficiencies noted above increase the risk that personnel data could be unreconciled to the general ledger which would lead to potential misstatement of payroll expenses. Additionally, without review of the SOC reports, changes to invoices or payments could be made by unauthorized personnel or without proper approval.

Recommendations Related to Monitoring of Service Organization Reports:

We continue to recommend that NRCS management:

11. Assess the competency of personnel who monitor the service organizations and their performance. NRCS management should appropriately align knowledgeable resources to identify and assess the CUECs that are integral to the effective internal control operations of its 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).

We recommend that NRCS management:

12. As part of their assessment of service and subservice organizations' SOC reports, determine whether controls at the service organizations are suitably designed and implemented to prevent, or detect and correct, processing errors that could result in a material misstatement in NRCS' financial statements.

Number 3: Improved Entity Level Controls are Needed (Repeat Condition)

Entity Level Controls (ELCs) operate at the entity level rather than at the assertion level and, therefore, have an important but indirect effect on the likelihood that a misstatement will be prevented, or detected and corrected, on a timely basis. As such, ELCs provide a foundation for the effective design and operation of control activities (i.e., higher level controls, process level controls, and general IT controls). ELCs may include standards, processes, structures, communication and other activities undertaken by NRCS that provide the basis for carrying out internal control across the organization.

As a result of the FY 2019 reorganization of the Farm Production and Conservation (FPAC) Business Center, KPMG observed:

- A lack of established structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of NRCS' objectives; and
- Failure to monitor deficiencies in internal controls and related corrective actions in a timely manner.

NRCS' management did commence work on corrective actions from FY 2019. However, in performance of the FY 2020 financial statement audit, the following deficiencies were noted:

- NRCS does not have a complete and updated organizational chart, and we continued to observe a lack of established reporting lines, and appropriate delineation of authorities and responsibilities; and
- Ineffective controls as assessed by management and the respective corrective actions are repeated on an annual basis and have reoccurred for the past several years.

The Government Accountability Office's, Standards for Internal Control in the Federal Government (Green Book), Principle 3 – Establish Structure, Responsibility, and Authority, states:

- 3.07: Management considers the overall responsibilities assigned to each unit, determines what key roles are needed to fulfill the assigned responsibilities, and establishes the key roles. Those in key roles can further assign responsibility for internal control to roles below them in the organizational structure, but retain ownership for fulfilling the overall responsibilities assigned to the unit.

Recommendations Related to Entity Level Controls:

We continue to recommend that NRCS management:

13. Design adequate monitoring controls around its annual risk assessment process to better address transactions with higher risk of error and to better facilitate availability of documentation related to these transactions; specifically, controls over completeness and accuracy related to the data used in monitoring controls (Recommendation 13 of Audit Report No 10403-0002-11, November 2019); and
14. Identify the appropriate resources and provide guidance to ensure that such resources understand their roles, responsibilities, and are adequate for the needs of the agency (Recommendation 14 of Audit Report No 10403-0002-11, November 2019).

We recommend that NRCS management:

15. Consider the structure of the agency and establish reporting lines and organizational structure to define, assign, and limit authorities and responsibilities.
16. Establish policies and practices to:
    a. Evaluate competence and address shortcomings of personnel,
    b. Attract, develop and retain individuals, and
    c. Plan and prepare for succession.
17. Hold individuals accountable for their internal control over financial reporting responsibilities in the pursuit of NRCS' financial reporting objective.
18. Evaluate and communicate deficiencies in internal control over financial reporting in a timely manner to those parties responsible for taking corrective action, including senior management and those charged with governance, as appropriate.
19. Continue to review and revise as necessary its internal control program to plan, perform, monitor, and report and communicate a comprehensive, adequate, and appropriate internal assessment of the operating effectiveness of internal controls. Establish clear timelines to implement and close corrective action plans and provide adequate training to process owners to create relevant and attainable plans that can be successfully completed within one year.

COMPLIANCE WITH LAWS AND REGULATIONS

Number 4: NRCS Did Not Substantially Comply with the Federal Financial Management Improvement Act of 1996 (FFMIA) (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. Specifically, we noted that the incorrect posting logic is being used for undelivered orders, upwards adjustments of prior year unpaid obligations, and unfilled customer orders and FMMI does not allow for updates to the period of performance data related to these types of transactions.

We continue to recommend that NRCS management work with the United States Department of Agriculture to implement the recommendations presented in Exhibit I, to resolve the instances of noncompliance with the Federal Financial Management Imrprovement Act of 1996.

NRCS' MANAGEMENT RESPONSE

United States Department of Agriculture

Farm Production and Conservation Business Center

Natural Resources Conservation Service

1400 Independence Avenue, SW
Stop 0501
Washington, DC
20250-0501

TO: Gil H. Harden
Assistant Inspector General
USDA

Brian Grega
KPMG LLP
1801 K-Street, NW
Washington, DC 20006

FROM: Margo E. Erny
Chief Financial Officer
Farm Production and Conservation

MARGO ERNY Digitally signed by MARGO ERNY
Date: 2020.11.16 21:08:18 -05'00'

SUBJECT: Natural Resources Conservation Service (NRCS) Audit Report Response

We have reviewed the KPMG Independent Auditors' Report dated November 16, 2020. We are very pleased with the Auditors' unmodified opinion on NRCS's Fiscal Year (FY) 2020 consolidated financial statements.

NRCS/FPAC agrees with the findings presented in the auditors' report. NRCS/FPAC is in the process of developing and implementing corrective actions to remediate the findings and will continue to work with the USDA Office of Inspector General to ensure effective remediation in FY 2021.

Please feel free to reach out to Margo Erny at (202) 720-4877 or Kathleen Carroll at (816)835-5081 if you have any questions.

NRCS

Natural Resources Conservation Service

Fiscal Year 2020

Agency Financial Report

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Message from the Acting Chief

On behalf of the Natural Resources Conservation Service (NRCS), I respectfully submit the Agency Financial Report (AFR) for Fiscal Year (FY) 2020.

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. Our FY 2020 internal controls and financial systems audit process is nearly complete. NRCS continues to make financial reporting improvements and remediate existing material weaknesses and financial system noncompliance. NRCS was able to obtain an unmodified opinion on all the NRCS financial statements for the first time ever in FY 2019. Management continues to implement corrective action plan activities and is expecting the same unmodified opinion for fiscal year 2020 to meet the objectives of FMFIA and the Federal Financial Management Improvement Act (FFMIA).

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

NRCS has a mission to deliver conservation solutions so agricultural producers can protect natural resources and feed a growing world. 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 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 implement conservation practices across the landscape and protect and preserve our national resources.

In FY 2020, we made significant strides toward meeting the Acting Chief's priorities:

Implement and deliver the 2018 Farm Bill to our nation's farmers, ranchers, and private forest landowners.

NRCS has made tremendous strides in implementing the new Farm Bill in fiscal year 2020, including two years of successful implementation of On-Farm Conservation Innovation Trials, a sub-program of Conservation Innovation Grants (CIG), as well as the Feral Swine Eradication and Control Pilot Program. Additionally, NRCS has held signups for CIG, Regional Conservation Partnership Program (RCPP), and Voluntary Public Access and Habitat Incentive Program. NRCS has continued to deliver its other programs, including the Environmental Quality Incentives Program (EQIP), Conservation Stewardship Program (CSP), and Agricultural Conservation Easement Program (ACEP). NRCS has published interim final rules for EQIP, CSP, ACEP, and RCPP and has conducted a review of its conservation practice standards.

Streamline our processes and program delivery to best serve our customers.

NRCS has been hard at work to improve processes and program delivery, which includes implementation of the Conservation Assessment Ranking Tool (CART) that modernizes and streamlines the agency's conservation planning and program delivery. CART is part of the NRCS of the Future effort, which is making meaningful changes and improvements to all programs and services to streamline processes, introduce efficiencies, incorporate technology, and improve communication and data availability.

Better understand our customer needs and improve overall customer service.

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 more efficiently. Through collaborations with the Farm Production and Conservation mission area's online farmers.gov website, NRCS continues to make new strides in ensuring a seamless and customer-focused experience for the customers we serve. Our goal is to deliver conservation systems, practices and programs that are relevant, impactful, and speak to our agency's mission and vision.

Increase internal mentoring, training opportunities, and experiences that collectively involve staff, customers and partners.

NRCS has been working to increase training opportunities, especially for its staff. In 2020, NRCS launched the new Conservation Agricultural Mentoring Program (CAMP), which is a state-driven, partnership and field-based program to build strong employee-producer relationships and increase employees' knowledge of production agriculture in their local areas. NRCS will match producer volunteers who are passionate about conservation and teaching with field employees who have fewer than three years of experience or who are new to an area. The producers will have an opportunity to mentor the employees through "on-the-land," hands-on learning to help them develop their knowledge.

The official rollout of CAMP occurred just as COVID-19 began. Despite the challenges inherent in establishing in-person mentoring relationships, states have been creative in communicating internally and with customers. Adoption of technologies such as Teams meetings between employees and mentors has helped push CAMP forward.

A CAMP Access database was developed to collect and store participant data. As of September, 600 mentees and 350 mentors had logged into the database. These numbers highlight the strong adoption of the goals and objectives of this mentoring program.

Expand focused outreach efforts to increase agency awareness among populations of Young, Beginning, Small, Veteran and Historically Underserved Farmers and Ranchers.

NRCS continues to reach new and beginning farmers, as well as historically underserved producers. NRCS was instrumental in the creation of Beginning Farmer and Rancher Coordinators and the standup of NRCS-led, USDA-wide Office of Urban Agriculture and Innovative Production. In August, the office announced the first-ever recipients of Urban Agriculture and Innovative Production Competitive Grants and Cooperative Agreements for Community Compost and Food Waste Reduction. These grants and projects were highly competitive with more than 500 applications received. This office will set up a National Advisory Committee for the Secretary of Agriculture, as well as 10 new Urban and Suburban FSA County Committees.

USDA designated national and state-level beginning farmer and rancher coordinators from NRCS, the Farm Service Agency (FSA) and the Risk Management Agency (RMA). Each state coordinator received training and is tailoring beginning farmer outreach plans for their state and helping field employees better reach and serve them. A new fact sheet and website on farmers.gov are early outreach tools.

Additionally, NRCS is putting together a handbook for outreach for Historically Underserved Producers.

Elevate the importance of soil health across our agency's outreach and communication efforts to further enhance and promote the delivery of soil health principles to staff, customers and partners.

Healthy soil is the foundation of agriculture. Every day, 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 additional production inputs. Healthy soils are better at holding water and nutrients, in turn resulting in more stored water during drought, and less flooding downstream in heavy rainfall. It's critical that we, as an agency, continue to research and share the gains in soil health from conservation practices, both within NRCS and to our customers and partners. Successful promotion of vital soil health principles will go a long way in conserving our nation's vital natural resources. Outside of the Acting Chief's priorities, NRCS continues to leverage the value of partnerships and outreach activities that are foundational to our agency.

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.

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

The Management's Discussion and Analysis (MD&A) serves as a high-level overview for the years ended September 30, 2020 and 2019 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

"We deliver conservation solutions so agricultural producers can protect natural resources and feed a growing world".

The Mission Statement is accompanied by NRCS' Vision: a world of clean and abundant water, healthy soils, resilient landscapes, and thriving agricultural communities through voluntary conservation.

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: "Strengthen the Stewardship of Private Lands Through Technology and Research".

Organizational Structure

NRCS operates under the direction of the USDA Under Secretary for Farm Production and Conservation (FPAC). 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.

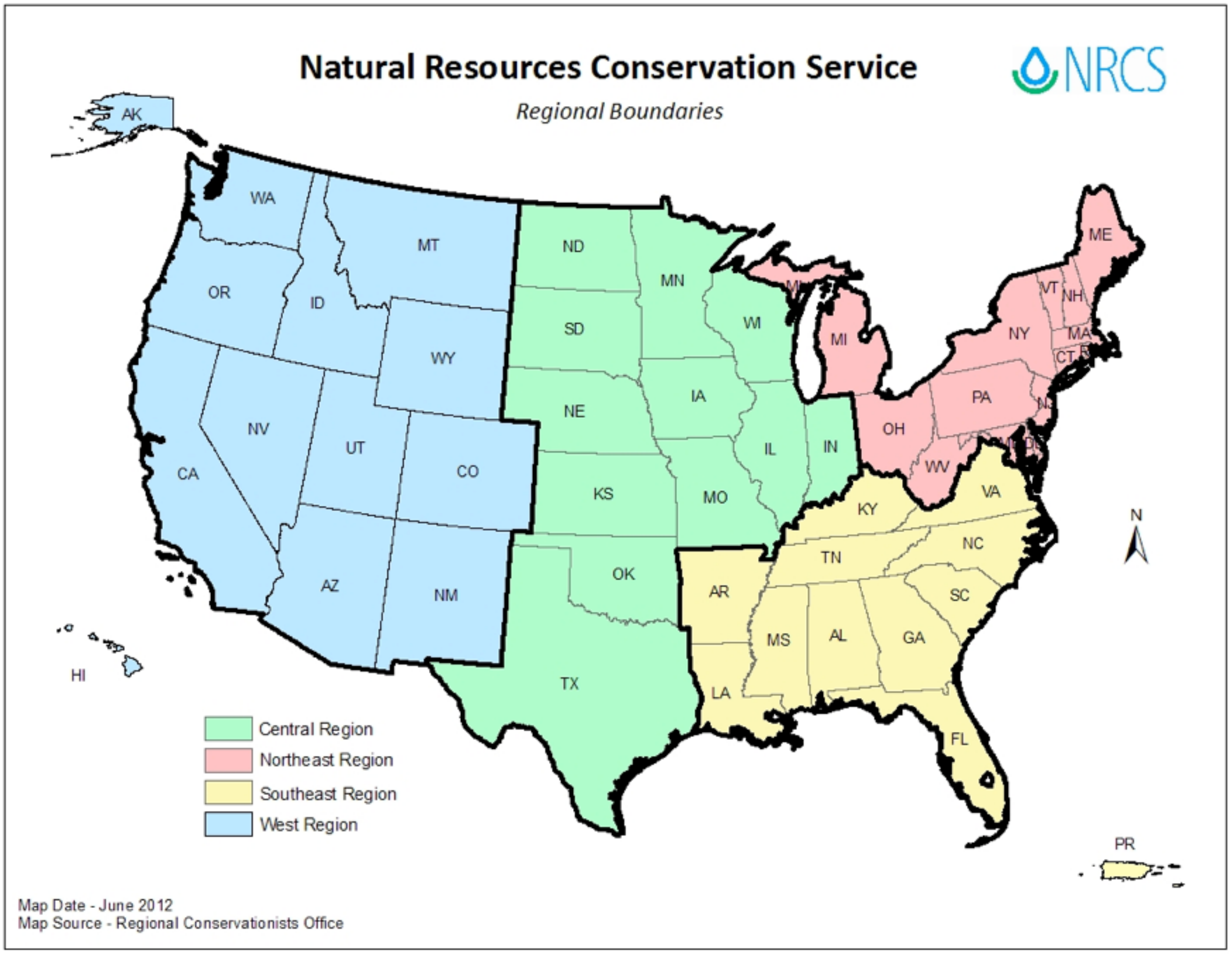

Table 1: NRCS Organizational Map of Regions

NRCS is a line and staff organization from the Field office through the State Conservationist to the Regional Conservationist, and to the Acting Chief. The four Regions are organized geographically as Northeast, Southeast, Central, and West. At Headquarters, 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, the Deputy Chief for Management and Strategy, and the Director of the Gulf Ecosystem Restoration Team.

NRCS
Natural Resources Conservation Service

Table 2: NRCS Organizational Chart as of September 30, 2020

Performance Goals, Objectives, and Results

From FYs 2016 to 2018, NRCS operated under its own strategic plan which contained four strategic goals. When NRCS was made part of the USDA's FPAC mission area, the agency's priorities were aligned with the USDA Strategic Plan, which currently extends to FY 2022. NRCS now operates under the guidance of USDA Strategic Goal 5: Strengthen the Stewardship of Private Lands Through Technology and Research. NRCS is further guided by three Strategic Objectives within Strategic Goal 5:

5.1 Enhance Conservation Planning with Science-Based Tools and Information;
5.2 Promote Productive Working Lands; and
5.3 Enhance Productive Agricultural Landscapes.

Performance Goals and Results

The following table displays NRCS' key performance measure accomplishments. The KPMs listed are the USDA measures from USDA Strategic Goal 5: Strengthen the Stewardship of Private Lands Through Technology and Research.

USDA Objective	Key Performance Measure (KPM)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020 Target	FY 2020 Actual	FY 2020 Result
5.1 Enhance Conservation Planning with Science-Based Tools and Information	Contract Implementation Ratio - EQIP (%)	N/A	N/A	87	87	87	87	Met
5.1 Enhance Conservation Planning with Science-Based Tools and Information	Practice Implementation Rate - (%)	N/A	N/A	43	55	53	Deferred	Deferred
5.2 Promote Productive Working Lands	Cropland with conservation applied to improve soil quality, Conservation Technical Assistance (millions of acres)	6	5.9	6	5.7	6	6.4	Met
5.2 Promote Productive Working Lands	Cropland with conservation applied to improve soil quality, Environmental Quality Incentive Program (EQIP) (millions of acres)	2.8	3	3.1	3.4	3.4	3.9	Met
5.2 Promote Productive Working Lands	Tons of sediment prevented from leaving cropland and entering waterbodies (million tons)	4.6	4.8	5.3	6.3	5.7	8.2	Met
5.3 Enhance Productive Agricultural Landscapes	Working lands protected by conservation easements (thousands of acres)	75.7	60.7	163	178	163	167	Met

1. Rationale for Met Range: Estimated performance from October 1, 2019 through September 30, 2020.
A KPM is considered Met if actual performance is at least 100% of the target.
2. FY 2020 performance data was available by the first quarter of FY 2021 and Practice Implementation Rate will be reported by the end of the first quarter of FY 2021.
3. Data source: NRCS tracks and evaluates field and State level conservation planning efforts and practice implementation through the Performance Results System. The data source is the National Planning and Agreements Database.

Table 3: Performance Scorecard for FY 2020 – 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 Performance Results System (PRS), except for easement program data which is 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, 2019 through September 30, 2020. 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. 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 Conservation Desktop, 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 consolidated 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.

Limitations of the Consolidated Financial Statements

The principal consolidated financial statements are prepared to report the financial position and results of operations of the NRCS, pursuant to the requirements of 31 U.S.C. 3515(b). The statements are prepared from the books and records of the entity in accordance with Federal GAAP and the format prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same books and records. The consolidated financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

The following tables reflect the comparative amounts as of September 30, 2020 and 2019.

Assets

NRCS reported approximately $14.1 billion in assets as of September 30, 2020, representing an increase of 13 percent compared with assets reported as of September 30, 2019.

Assets (in millions)	2020	2019	Difference	Percent Difference
Fund Balance with Treasury	$ 13,961	$ 12,431	$ 1,530	12%
Accounts Receivable	18	18	$ -	0%
Advances	4	0	$ 4	N/A
Total Intragovernmental Assets	**$ 13,983**	**$ 12,449**	**$ 1,534**	12%
Accounts Receivable, Net	$ 2	$ 4	$ (2)	-50%
General Property, Plant, and Equipment, Net	144	80	64	80%
Advances to Others	21	42	(21)	-50%
Total Assets	**$ 14,150**	**$ 12,575**	**$ 1,575**	13%

Table 4: 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 $1.5 million compared to last year because NRCS received a $2.6 billion transfer from CCC in September for Farm Bill funding, and very little of these funds had been expended by September 30.

Liabilities

NRCS reported approximately $1.3 billion in liabilities as of September 30, 2020, a slight increase compared to the same period in FY 2019. The major liability amounts are provided in the table below.

	2020	2019	Difference	Percent Difference
Liabilities (in millions)				
Accounts Payable	$ 1	$ 2	$ (1)	-50%
Other Liabilities	58	37	21	57%
Total Intragovernmental Liabilities	**$ 59**	**$ 39**	$ 20	51%
Accounts Payable	$ 33	$ 30	$ 3	10%
Federal Employee and Veterans' Benefits	32	38	(6)	-16%
Other Liabilities	1,136	1,049	87	8%
Total Liabilities	**$ 1,260**	**$ 1,156**	$ 104	9%

Table 5: Liabilities

Other liabilities increased by $104 million compared to last year as a result of yearend accruals relating to liabilities associated with the Conservation Desktop software project and the Conservation Stewardship program.

Net Position

NRCS reported a net position of approximately $12.9 billion as of September 30, 2020, representing an increase of 13 percent over the same period in FY 2019. Net position represents unexpended appropriations consisting of undelivered orders as well as unobligated funds, and the cumulative results of operations.

	2020	2019	Difference	Percent Difference
Net Position (in millions)				
Unexpended Appropriations	$ 2,130	$ 2,281	$ (151)	-7%
Cumulative Results of Operations	10,760	9,138	1,622	18%
Total Net Position	**$ 12,890**	**$ 11,419**	**$ 1,471**	**13%**

Table 6: Net Position

The increase in Cumulative Results of Operations is largely the result of the late year transfer of $2.6 billion in Farm Bill funding from CCC.

Net Cost of Operations

NRCS' net cost of operations was approximately $4.4 billion as of September 30, 2020, representing an increase of 14 percent from last year.

Net Cost of Operations (in millions)	2020	2019	Difference	Percent Difference
Gross Costs	4,475	$3,920	$555	14%
Less: Total Earned Revenue	59	31	28	90%
Total Net Cost of Operations	**$4,416**	**$ 3,889**	**$ 527**	**14%**

Table 7: Net Cost of Operations

Gross costs increased compared to last year because of activity related to the EQIP program. The FY 2018 Farm Bill expanded the scope of the program eligibility to States, irrigation districts, and historically underserved producers. NRCS made $1.2 billion in FY 2020 funding available to interested producers. FY 2020 also saw a significant increase in revenue earned as billings were issued related to the Great Lakes Restoration Initiative, the EQIP program, and other reimbursable activities.

Budgetary Resources

Total budgetary resources were $12.3 billion as of September 30, 2020, representing an increase of eleven percent from September 30, 2019.

	2020	2019	Difference	Percent Difference
Budgetary Resources (in millions)	$12,344	$11,096	$ 1,248	11%

Table 8: Budgetary Resources

The increase is attributable to Farm Bill funding related to the Conservation Stewardship program. NRCS received an additional $1.8 billion dollars for the program this year in order to fully obligate contracts that were authorized by the FY 2014 Farm Bill and for which annual obligations were being recorded.

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, FFMIA, and other applicable laws and regulations.

FY 2020 Financial Statement Audit Report Results

In FY 2020, KPMG LLP, an independent auditing firm, was engaged to audit the consolidated financial statements of NRCS. The auditors issued an Unmodified Opinion on the consolidated financial statements.

The deficiencies reported herein were identified during the FY 2020 audit.

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

One non-compliance with laws and regulations was identified. NRCS is non-compliant with the Federal Financial Management Improvement Act of 1996 (FFMIA) 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	9/30/2021
Expenses	Material Weakness	Repeat Condition	9/30/2021
Entity Level Control	Material Weakness	Repeat Condition	9/30/2021
Non-Compliance with the Federal Financial Management Improvement Act	Non-Compliance with Laws and Regulations	Repeat Condition	9/30/2021

Table 9: Open Audit Recommendations

Remediation Activities

NRCS completed the following accomplishments during FY 2020 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 2021, including:

- Enhance FMMI processes and feeder systems/processes to provide capability to obtain aged ULO population through the FMMI database with real-time 48xx period of performance data;
- Establish an ongoing process to maintain, monitor, and certify ULOs by period of performance to ensure ULOs are being closed out timely to prevent a backlog of aged obligations from developing in the future;
- Refine 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; and
- Provide additional guidance and/or training to employees over the recording of transactions with future economic benefits

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 FMFIA and FFMIA as of September 30, 2020. This assessment included the safeguarding of assets and compliance with applicable laws and regulation. As a result of this assessment, three material weaknesses, one financial system non-conformance and three instances of non-compliance with laws and regulations were noted. NRCS has three material weaknesses related to unliquidated obligations, accrued expenses, and entity level controls.

NRCS is non-compliant with the following:

- FMFIA Section 4, since its systems do not conform to financial system requirements;
- FFMIA since transactions are not recorded in accordance with Federal accounting standards and the USSGL at the transaction level; and
- Laws and regulations pertaining to Data Act reporting for USAspending.gov.

Therefore, NRCS is providing modified assurance that NRCS' 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 2020. 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.

The following business processes were reviewed:

1. Data quality compliance;
2. Awards and Modifications- Grants/Entitlements/Cooperative Agreements (Protracts and Non-Protracts);
3. Draws and Expenditures –Grants/Entitlements/Cooperative Agreements (Protracts and Non-Protracts);
4. Monitoring – Grants/Entitlements/Cooperative Agreements (Protracts and Non-Protracts);
5. Fund Balance with Treasury Reconciliation;
6. Budgetary Authority;
7. Period End Reporting; and
8. Unliquidated Obligations.

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

Deficiency Area	Weakness Category	Year Identified	How Identified	Original Estimated Completion Date	Revised Completion Date	Actual Completion Date
Obligations/Unliquidated Obligations	Material Weakness	2013	External Audit and A-123 Appendix A Evaluations	9/30/2014	11/30/2021	N/A
Expenses/Accrued Expenses	Material Weakness	2015	External Audit and A-123 Appendix A Evaluations	9/30/2016	11/30/2021	N/A
Entity Level controls	Material Weakness	2019	External Audit	9/30/2020	N/A	N/A
Maintaining, Controlling, and Monitoring the FMMI General Ledger	Significant Deficiency	2019	A-123 Appendix A Evaluations	9/30/2021	N/A	N/A

Table 10: 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 FY 2020, NRCS evaluated its financial management systems to assess compliance with FFMIA. The deficiencies reported herein were identified during the FY 2020 audit.

NRCS is not compliant with Federal accounting standards and the USSGL at the transaction level as of September 30, 2020. 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 fiscal year ended September 30, 2020.

Deficiency	Year Originally Identified	Original Estimated Completion Date	Revised Estimated Completion Date
Non-Compliance with Federal Accounting Standards	2008	7/31/2009	11/30/2020
Non-Compliance with USSGL	2008	7/31/2009	11/30/2020

Table 11: 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' compliance with laws and regulations.

Audit Finding	Year Originally Identified	Original Estimated Completion Date	Actual Completion Date	Revised Estimated Completion Date
Non-Compliance with FFMIA	2008	7/31/2009	N/A	11/30/2020
Anti-Deficiency Act Violation in FY 2018	2019	4/10/2020	4/10/2020	N/A
Non-Compliance with DATA Act	2020	9/30/2021	N/A	N/A

Table 12: 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' 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.

The FPAC Business Center accomplished the following actions toward NRCS information security improvement during FY 2020, including:

- Ensured forty-six systems attained or maintained Authority to Operate (ATO) with FISMA requirements. Twenty-six systems were assessed during FY 2020. The remaining 20 systems will be assessed during the FYs 2020-2021 assessments in the early part of FY 2021;
- Twenty-eight Plan of Action and Milestones (POA&Ms) were fully remediated in FY 2020. Remediation of another 20 POA&Ms is planned for FY 2021;
- Conducted four High-Valued Asset (HVA) annual ATO assessments during FY 2020;
- Conducted an annual A-123 audit for the HVA ProTracts Fundmanager system, resulting in no additional findings beyond the one FY 2019 OIG POA&M currently being worked;
- Updated and enforced security standard operating procedures for all NRCS information systems;
- Reviewed 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;
- Assisted project and portfolio management and software development teams with vulnerability remediation measures for cloud, web, and Federal applications/systems;
- Deployed and managed security tools to identify, protect, detect, respond, and recover NRCS applications/systems;
- Achieved 98 percent compliance with mandated Information Security Awareness Training (ISAT), which enhanced NRCS' awareness of cybersecurity threats;
- Performed assessments with the U.S. Department of Homeland Security and OIG on NRCS ProTracts and mitigated the findings, improving the security posture of the system; and
- Conducted informative briefings to Mission Delivery Agencies regarding identified risks, security findings, and how the findings would be addressed for their 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, 2020, there are nine audits for which final action has not yet been completed in accordance with the act.

GAO/OIG Active Audits

The summary of GAO/OIG active audits for the year ended September 30, 2020 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 Name and Number	Start Date	Final Report Date
OIG – NRCS Equitable Relief (ER) – 10601-0001-31	8/7/2018	9/18/2019
OIG – COVID-19 Survey Agency Response – 50025-0001-23	5/28/2020	1
OIG – Agriculture Conservation Easement Program – 10601-0007-31	8/1/2018	9/26/2019
OIG – FY 2018 Financial Statement Audit	3/6/2018	8/31/2019
OIG – Natural Resources Conservation Service's Financial Statements for Fiscal Year 2019	10/26/2018	11/26/2019
OIG – Adjusted Gross Income Compliance Verification Process – 50024-0003-22	12/5/2017	6/24/2019
OIG – Annual Forage Program and Follow Up on Pasture, Rangeland, Forage Program Recommendations – 05601-0006-31 (RMA)	11/29/2017	7/26/2019
OIG – Environmental Quality Incentives Program (EQIP) Payment Schedules – 10601-0005-31	8/17/2017	9/24/2019
OIG – NRCS Balance Sheet for FY 2017 – 10401-0009-11	3/7/2017	11/17/2017
OIG – Controls Over Conservation Innovation Grants – 10099-0001-23	2/7/2017	9/11/2018
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	9/8/2017	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 – Emergency Watershed Protection Program – 10702-0001-23	9/10/2019	1
OIG – Review of an NRCS IT-Related Contract – 10801-0001-12	4/26/2019	3/30/2020
GAO – USDA's EQIP Could Be Improved to Optimize Benefits – 100307 (GAO-17-225)	9/17/2015	5/15/2017
GAO – Assessing Technologies on Water Supplies – 102103	6/27/2017	6/11/2019
GAO – Federal Efforts to Address Harmful Algal Bloom (HAB) Hypoxia	9/24/2020	1
GAO – Emergency Watershed Protection Program - 104326	6/4/2020	1
GAO – Wetland Conservation Compliance – 103431	4/9/2019	1
1: Audit in progress and final report release is pending.		

Table 13: 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.

Over the past 11 years, NRCS has been implementing five broad strategies under the CDSI effort. These include (1) redesigning NRCS' business processes, (2) aligning information technology to the redesigned processes, (3) integrating and improving science technologies to support NRCS programs, (4) simplifying and standardizing the delivery of financial assistance, and (5) providing ways for customers to work with NRCS that are more convenient and efficient.

The supporting information technology for CDSI consists of three integrated systems: Conservation Desktop (CD), Mobile Planning Tool (MPT) and the Conservation Client Gateway (CCG). CD is a single application that provides access by technical and financial staff to the tools and information they need to efficiently deliver conservation assistance. MPT, when developed, will be used by NRCS technical staff to collect resource inventory, analysis, and practice certification data. CCG is a secure, map-based web application for farmers and ranchers, operating as individuals or business entities, and allows them to request help with conservation plans, apply for Farm Bill conservation programs, electronically sign and upload documents, manage their Farm Bill conservation contracts and conservation plans, report completed conservation practices, and track conservation payments for successfully completed and certified conservation practices.

The primary business staff working on CDSI were organized in the Office of NRCS' Associate Chief for Operations to ensure an integrated approach, rather than a stove-piped Agency-wide approach. NRCS has been implementing the five broad strategies that will allow field staff to:

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

During FY 2012, NRCS conducted two major pilot projects to evaluate streamlined and standardized business processes, as well as to prototype business tools to implement those processes. These pilots included: (1) an evaluation of CCG in eight States that allowed customers to work with NRCS 24 hours a day and seven days a week, apply for financial assistance conservation programs, check on conservation payments, and much more online; and (2) a pilot in 17 States of a new application that provided Program Support Assistant staff 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 conservation program administration and streamlining program participation for customers. Both pilots were successful in helping to guide the future of a more streamlined, integrated conservation delivery system. In addition to significant efficiencies for NRCS staff, it was estimated that implementing these streamlined processes and tools would 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 ensured a more consistent organizational approach to performing program administration tasks and removed administrative burden from field technical staff. The staff would utilize Conservation Desktop and standardized workflow tasking to ensure consistent streamlined business processes nation-wide. In October 2012, NRCS began testing the first version of CD. NRCS released version one as beta version to four USDA Service Centers 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 CD should not be released nationally for field use. As a result, NRCS assessed and realigned its strategic path forward for both the CD and the MPT.

From May to October 2013, NRCS worked closely with USDA and OMB to finalize a new path forward with 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 moved forward. The CAP included:

- Lessons learned and mitigation strategies;
- An improved strategy for a modular development approach that splits CD into smaller, more frequent releases;
- Development of the CD and 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 (CIO), and OMB approved the new path forward in September 2013. NRCS completed the design and architecture to support CD 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 oversight briefings. CDSI continues to brief USDA OCIO monthly, with reporting to OMB through standard Capital Planning and Investment Control channels.

In May 2015, NRCS made the Conservation Client Gateway (CCG) available to all clients nationwide. More than 10,000 customers have used CCG to date. CCG allows NRCS customers to:

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

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 conservation financial assistance contract actions. This also allowed State and regional supervisors to manage workloads and team resources through real-time, customizable reports.

In FY 2017, NRCS conducted an MPT pilot with field conservationists from 16 States, across the country, to validate mobile device requirements. The pilot was completed in July 2017 and the findings were provided to and accepted by NRCS leadership. These prioritized technical device specifications helped provide the basis for the requirements used in a mobile device blanket purchase agreement slated for the fall of 2019.

CD's first nation-wide, incremental release (Version 1, Release 1) (CD V1R1) occurred in July 2017 with a full announcement in late August 2017. This integrated release included functionality for conservation technical assistance and financial assistance, with the supporting core services for integration with authoritative databases and legacy systems. The release also included:

- The ability to manage user preferences, cases, customer associations and assistance notes;
- Application functionality, such as viewing and selecting geospatial data layers, as well as zooming and panning of conservation practices 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.

CD's second nation-wide incremental release (Version 1, Release 2) (CD V1R2) occurred in December 2017. This release addressed production defects and carryover functionality from the release of CD V1R1, in addition to the following new functionality:

- Ability to perform tasks, using power of attorney (POA), including requesting conservation technical and financial assistance, reviewing and signing documents, and accessing plans and contracts within CCG;
- Support for business entity customers (e.g. limited liability corporations and partnerships);
- Ability to generate reports on practices, land units, and land use summaries;
- Ability to 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.

CD (Version 2, Release 1) V2R1 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 conservation practices and make, process, and review payments for completed and certified conservation practices;
- Improvements to map label functionality, including label creation and the ability to annotate layers;
- Document management features related to the certification of conservation practices and NRCS Farm Bill Programs contract payments; and
- Standardized tasking and workflow management for the certification of conservation practices and NRCS Farm Bill Programs contract payments.

In March 2019, CD (Version 2, Release 2) V2R2 was successfully deployed to production. In April 2019, national "Train the Trainer" training was provided to over 120 participants. CD V2R2 functionality included:

- Improved conservation practice symbology;
- The ability to create a Record of Decision in the conservation products;
- The ability for State GIS specialists to manage web-based State and local geospatial data;
- Improved and simplified roles and permissions including the Planner Support role;
- Integrated customer requests and tasks for brief technical assistance, site visits, and new and modify conservation plan requests;
- The ability to bulk certify and update the geometry of completed conservation practices;
- Implemented enhancement requests for land units (LU) (Island LU, Reshape LU, Add/Remove LU);
- The ability to delete Easement Case File and display Easement Data from NPAD in CD;
- The ability to post national, State and field office level document forms, worksheets and templates;
- Management of legacy technical assistance documents and document management integration; and
- Updated and simplified CD technical assistance roles.

In October 2019, CD (Version 2, Release 3) V2R3 was successfully deployed to production. In October 2019, national "Train the Trainer" training was provided to over 160 participants. CD V2R3 functionality included:

- Ability to create and manage non-Payment Schedule Application (PSA) cost lists;
- Document Signature Status, Signatory Designation during Upload, eSignature for field staff (single signer);
- Ability to create and manage conservation contract items;
- Conservation products including a Conservation Plan Map, General (ad-hoc) Map, Schedule of Operations (1155), Modification to Schedule (1156), and Soils Map and Inventory Report;
- Expanded options for Case File, Agreement, and Easement Search;
- Viewing and managing national soils geospatial data in CD;
- The ability to intersect soils map units with Planning Land Units (PLUs);
- Ability to create and view soils interpretations and reports;
- Editing of existing Conservation Stewardship Program (CSP)/Conservation Management Tool (CMT) Schedules;
- The import and export of ESRI® shapefiles into CD;
- Easement land unit and reconciliation tools;
- Additions to Easement Case File Workload Report;
- Ability to display other stewardship lands data;
- Updates for Map Labels & Annotations;
- Editing and saving assistance notes while a contract is being modified in ProTracts;
- Creation of a contract-level assistance note type; and
- Task list filtering.

In January 2020, NRCS successfully deployed CD (Version 3 Release 1) V3R1 to production. The primary functionality for this release focused around integration with NRCS' new Conservation Assessment and Ranking Tool (CART). The function included in this release included:

- Allows users to digitize and schedule draft practices added in CART Assessment and selected for funding

In March 2020, NRCS initiated a move to more agile and frequent deployment schedule using the Scaled Agile Framework methodology. On March 18, 2020 NRCS successfully deployed CD 2020a.1 to production. Functionality for this release included:

- Ability to generate CSP Reports in CART Assessment;
- Ability in Select Agreements Tool (SAT) to Pre Approve Assessments in Submitted Ranking Status when the ProTracts application status is Eligible or Pre Approved;
- Ability to link a CART Ranking Pool to a ProTracts Sub Account;
- SAT data can be exported to Excel;
- State ProTracts Program Managers can pre approve assessments in SAT;
- Agreement Items can be created and submitted to ProTracts for applications pre-approved in SAT.

In April 2020, NRCS deployed CD 2020b to production. The functionality for this release included:

- Allows users to delete Agreement items in CD from ProTracts Applications in Deferred or Cancelled status;
- Cost List Agreements: Allows users to delete legacy TK contracts using the actions menu.
- Relocation in CD to the Programs button on the main toolbar;
- Name changed from Select Agreements to Select Applications;
- Allows anyone with zRoles permissions in CD to search and export data into Excel;
- Updated the calculation for the Ranking Pool Total Available Amount in SAT to be the Amount Allocated to the subaccount in ProTracts minus Obligated Amount;
- Modal to allow viewing practices for current ranking pool or to view practices from all eligible ranking pools;
- Dropdown Selection for Ranking Pool Assessments already Pre-Approved, Eligible, and Ineligible;
- Allow Pre-Approvals for ProTracts Applications in Pending Status;
- Ability to link prior FY sub accounts to Ranking Pools (enables use of SAT for RCPP);
- Workflow now fully functional including reconciliation.

In May 2020, NRCS deployed the next CD release (termed "Clover") to production. The functionality for this release included:

- Agreement Items – Ranking Pools with special characters and space as first character can now submit items to ProTracts;
- PLU Editor - Eliminates ghost PLUs;
- SAT - Link to ProTracts Manage Applications and ProTracts Allocate Funds;
- SAT - Allow Negative Balance;
- SAT - Pre-Approve All;
- SAT - Exclude Obligated costs from Ranking Pool Total Available Amount Value;
- SAT-Undo Preapproval displaying Ranking Pools from multiple assessments and applications; Only allows undoing the current ranking pool;
- SAT-'Ranking Submitted Date' on 'Export' does not match user SAT display grid.

In June 2020, NRCS deployed the next CD release (termed "Drake") to production. The functionality for this release included:

- Ability to Open Practice Schedule from SAT;
- Ability to 'turn off' a Ranking Pool that should no longer be used to select practices for funding from Ranking Pool Assessments;
- Cannot be undone once a ranking pool is Inactivated;
- Inactive ranking pools can be copied, and display groups can be copied;
- Practices not selected for "Seek Funding" will pass through the ranking process and will not impact ranking matching process or ranking score;
- The practices not seeking funding will not be included on the ranking pool applicability details report;
- In the assessment the seeking funding indicator does not impact relevance of practice points towards a RC;
- Allows for PLUs shared between two assessments be unlocked by the archiving the assessment with a status of Selected;
- Creates a historical record of an assessment and the associated ranking;
- Allows CART users to Archive and bring forward the PLUs of the archived assessment to allow for additional planning.

The release also included the following key defect fixes:

- Ranking Applicability Details Report will now display all practices as included or excluded that are selected for funding --- eliminates hourly script that was running;
- Land unit editor will now allow the planned amount to be correctly entered over 999 ac.;
- Able to Schedule greater than 1000 full field practices at a time;
- Invalid Geometry issues with both land units and practices resolved;
- Screen lag when typing assistance notes in Internet Explorer is resolved;
- When soils are clipped and Soils map created - all the soil polygons are now labeled;
- The CART Assessment Results page say that the planned total does not meet the threshold;
- SAT fixed to only pre-approve planned, alternative and draft practices --- eliminates current overnight wait to be able to submit to Protracts.

In August 2020, NRCS deployed the next CD release (termed "Drake") to production. The functionality for this release included:

- Create non-cost shared items for PSA agreements;
- Create CLA and PSA agreement items with unit costs exceeding $999,999.99 to accommodate easement programs;
- Provides a Mark All PLUs Complete option on each assessment page;
- Flag unanswered items on the Resource Inventory page for easy navigation;
- Lock and unlock PLUs in CD when assessments are locked/unlocked;
- CSP reports can be generated after the Existing Practice section is complete;
- Save land unit data (tract, land unit number, acres, geometry) that existed when assessment was archived;
- Display archive date in assessment search results;
- Navigation enhancements allow users to navigate to the Assessment Summary page from Applicable Ranking Pool Listing and Applicability Detail View pages;
- Navigation enhancements allow users to navigate back to the Ranking Pool Listing Summary page without searching for the National Ranking Template;
- Ranking pool name character limit increased to 150 to align with ProTracts subaccount name limit;
- New Interim Applicability Ranking Pool Matching page displays pools that successfully matched and those with errors;
- First table lists non-geospatial ranking pool matches, second lists geospatial ranking pool matches;
- Message displays when no new applicable ranking pools found or no ranking pools in the state that match the assessment;
- Allows user to return to Assessment and update as needed;
- CD Reports Landing page provides single location for accessing reports;

- Allows users to select a priority level when creating a New Conservation Plan or Site Visit Assistance Request;
- Priority and Source (Farmers.gov, CCG, CD) added to View Requests allowing users to view request details for a single client in one location without opening the details for each request;
- Allows users to select all categories in the filter criteria and export the search results;
- Allows programs with applications in NEST to be pre-approved through SAT when allow negative balance is checked;
- Search results updated to display indicator for archived assessments;
- Search results updated to display whether ranking pool is Active or Inactive;
- Allows users to undo pre-approval for a pre-approved ranking pool assessment where the assessment has been archived;
- Ranking Pool Assessments are automatically archived when user completes undo pre-approval where the assessment is archived, or the ranking pool is inactive.

The release also included the following key defect fixes:

- Performance improvements to prevent "Problems calculating Dynamic Threshold error" on assessments with a large number of PLUs;
- Easement Reconciliation - Enforce Easement Rules not saving the selected value when a note was also added;
- Roles issue prevented state users from editing spatial layers provisioned by another state user;
- Performance improvements to prevent missing ranking scores due to time outs during processing;
- NULL dates displayed as 12/31/1970 on the Case File and Agreement Search page;
- NRCS-CPA-1155/56 generated in CD not populating agreement items when practice narratives exceed 2000 characters;
- NRCS-CPA-1155/56 not displaying agreement items in numeric order;
- Resource concerns not populating in assessment for PLUs that have already been assessed in another practice schedule;
- SAT allowing users to pre-approve assessments in a second ranking pool after all practices selected in the first pool.

Between September and December 2020, NRCS plans to deploy three more CD releases (Fennel, Guava and Hopes) to production with 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 CD;
- A new and improved web interface that supports mobile device access;
- Integration of NRCS conservation request workflows with CD Task Management System;
- Foundation functionality to support the future replacement and integration of NRCS' current conservation contract management and easement tracking software;
- Development of basic automated NRCS-Conservation Planning Assistance Environmental Evaluation form;
- Ability to collect conservation compliance data, create reports and client correspondences;
- Performing basic resource inventory and assessments to support a conservation plan;
- Ability to access and use CD on non-USDA computer systems; and
- Additional enhancements.

As NRCS continuously evaluates changes in mission priorities and advances in the information technology marketplace. Occasionally there is a need to update the technical implementation of CDSI systems while keeping 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. NRCS has not been able to exercise the planned 'parallel development approach'. This is due, primarily to delays in receiving the new Application Development indefinite delivery/indefinite quantity DIQ and completing the CDSI Requirements, Architecture, and Design project. As a result, the bulk of the remaining application development work has shifted in the schedule and has continued through FY 2019 and into FY 2020. Even if NRCS had been able to compete all the remaining development in FY 2019, the 8,000 field users could not have absorbed or adjusted 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 CD and MPT to now deliver these tools 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 customers. This will likely require some adjustments to the implementation CD and MPT.

- NRCS is currently developing a new resource assessment process, which requires adjustments to CD planning functionality for the assessment of various natural resources. As the technology for "Big Data" has evolved since the previous rebase line in 2014-2015, and 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 FY 2020-proposed reorganization by the USDA for information technology (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. Farmers.Gov was initially launched in FY 2018 and is scheduled to incorporate current CCG functionality in FY 2020.

- In 2018, NRCS leadership made the decision to conclude development under the CDSI investment by the end of FY 2020 and complete the remaining CD features and functions, using existing NRCS IT investments. Ending CDSI development in FY 2020 will reduce the total cost of the CDSI investment from $206 million to $191 million including Operations and Maintenance (O&M). The latest rebaselining effort included realigning CCG development funding to the Farmers.Gov Portal. This will provide improved functionality in one common entry point for all FPAC customers for conducting on-line, transactional business with FSA, NRCS and RMA.

- Since the CDSI IT Investment and software development will conclude at the end of FY 2020, this will be the last update for CDSI in the Annual Financial Report.

SECTION 2: FINANCIAL INFORMATION

NRCS

Natural Resources Conservation Service

Consolidated Financial Statements

Natural Resources Conservation Service

CONSOLIDATED BALANCE SHEETS

As of September 30, 2020 and 2019

(In Millions)

		2020		2019
Assets:				
Intragovernmental:				
Fund Balance with Treasury (Note 2)	$	13,961	$	12,431
Accounts Receivable (Note 3)		18		18
Advances to Others (Note 6)		4		-
Total Intragovernmental Assets	$	13,983	$	12,449
Accounts Receivable, Net (Note 3)	$	2	$	4
General Property, Plant, and Equipment, Net (Notes 4 and 9)		144		80
Advances to Others (Note 6)		21		42
Total Assets	$	14,150	$	12,575
Stewardship PP&E (Note 5)				
Liabilities:				
Intragovernmental:				
Accounts Payable	$	1	$	2
Other Liabilities (Notes 7 and 8)				
Accrued Liabilities for Other Services		39		20
Employer Contributions and Payroll Taxes		12		9
Unfunded FECA Liability		6		7
Custodial Liabilities		1		1
Total Intragovernmental Liabilities	$	59	$	39
Accounts Payable	$	33	$	30
Federal Employee and Veterans' Benefits (Note 7)		32		38
Other Liabilities (Note 8)				
Accrued Liabilities for Other Services	$	1,006	$	928
Unfunded Leave (Notes 7 and 8)		77		66
Accrued Funded Payroll and Leave		37		29
Advances from Others		15		26
Other		1		-
Total Other Liabilities	$	1,136	$	1,049
Total Liabilities	$	1,260	$	1,156
Commitments and Contingencies (Note 10)				
Net Position:				
Unexpended Appropriations	$	2,130	$	2,281
Cumulative Results of Operations - Funds from Dedicated Collections (Note 11)		11		7
Cumulative Results of Operations - All Other Funds		10,749		9,131
Total Net Position	$	12,890	$	11,419
Total Liabilities and Net Position	$	14,150	$	12,575

The accompanying notes are an integral part of these consolidated financial statements.

NRCS
Natural Resources Conservation Service

Natural Resources Conservation Service

CONSOLIDATED STATEMENTS OF NET COST

For the Years Ended September 30, 2020 and 2019

(In Millions)

Gross Program Costs:

Strategic Goal:
Strengthen the Stewardship of Private Lands through Technology and Research

	2020	2019
Farm Bill Programs		
Gross Costs (Notes 12 and 13)	$ 3,267	$ 2,894
Less: Earned Revenue (Notes 1L and 12)	18	13
Net Program Costs	3,249	2,881
Conservation Operations Program		
Gross Costs (Notes 12 and 13)	903	819
Less: Earned Revenue (Notes 1L and 12)	19	11
Net Program Costs	884	808
Watershed and Flood Prevention Operations Program		
Gross Costs (Notes 12 and 13)	268	170
Less: Earned Revenue (Notes 1L and 12)	16	3
Net Program Costs	252	167
Watershed Rehabilitation Program		
Gross Costs (Notes 12 and 13)	33	33
Less: Earned Revenue (Notes 1L and 12)	6	4
Net Program Costs	27	29
Other Programs		
Gross Costs (Notes 12 and 13)	4	4
Less: Earned Revenue (Notes 1L and 12)	-	-
Net Program Costs	4	4
Total Gross Costs	4,475	3,920
Less: Total Earned Revenue	59	31
Net Cost of Operations	$ 4,416	$ 3,889

The accompanying notes are an integral part of these consolidated financial statements.

Natural Resources Conservation Service

Natural Resources Conservation Service

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

For the Years Ended September 30, 2020 and 2019

(In Millions)

	2020			2019		
	Funds from Dedicated Collections (Note 11)	**All Other Funds**	**Total**	**Funds from Dedicated Collections (Note 11)**	**All Other Funds**	**Total**
Unexpended Appropriations:						
Beginning Balance	$ -	$ 2,281	$ 2,281	$ -	$ 1,773	$ 1,773
Budgetary Financing Sources:						
Appropriations Received	-	1,029	1,029	-	1,418	1,418
Appropriations Transferred in/out	-	(25)	(25)	-	5	5
Other Adjustments		(44)	(44)	-	(14)	(14)
Appropriations Used	-	(1,111)	(1,111)	-	(901)	(901)
Total Budgetary Financing Sources	$ -	$ (151)	$ (151)	$ -	$ 508	$ 508
Total Unexpended Appropriations	$ -	$ 2,130	$ 2,130	$ -	$ 2,281	$ 2,281
Cumulative Results of Operations:						
Beginning Balance	$ 7	$ 9,131	$ 9,138	$ 4	$ 8,015	$ 8,019
Budgetary Financing Sources:						
Other Adjustments	-	(307)	(307)	-	(259)	(259)
Appropriations Used	-	1,111	1,111	-	901	901
Transfers in/out without Reimbursement, Net	5	5,150	5,155	3	4,271	4,274
Other Financing Sources (Non-Exchange):						
Imputed Financing (Note 13)	-	79	79	-	92	92
Total Financing Sources	$ 5	$ 6,033	$ 6,038	$ 3	$ 5,005	$ 5,008
Net Cost of Operations	(1)	(4,415)	(4,416)	-	(3,889)	(3,889)
Net Change	$ 4	$ 1,618	$ 1,622	$ 3	$ 1,116	$ 1,119
Cumulative Results of Operations	$ 11	$ 10,749	$ 10,760	$ 7	$ 9,131	$ 9,138
Net Position	**$ 11**	**$ 12,879**	**$ 12,890**	**$ 7**	**$ 11,412**	**$ 11,419**

The accompanying notes are an integral part of these consolidated financial statements.

Natural Resources Conservation Service

Natural Resources Conservation Service
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2020 and 2019
(In Millions)

	2020	2019
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (Notes 14 and 16)	$ 6,333	$ 5,623
Appropriations (discretionary and mandatory)	5,871	5,434
Spending authority from offsetting collections (discretionary and mandatory)	140	39
Total Budgetary Resources (Note 16)	$ 12,344	$ 11,096
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	$ 6,212	$ 5,154
Unobligated balance, end of year:		
Apportioned, unexpired accounts	3,471	3,218
Unapportioned, unexpired accounts	19	40
Unexpired unobligated balance, end of year	3,490	3,258
Expired unobligated balance, end of year	2,642	2,684
Total unobligated balance, end of year	6,132	5,942
Total Budgetary Resources	$ 12,344	$ 11,096
Outlays, Net:		
Outlays, net (discretionary and mandatory)	$ 4,278	$ 4,017
Distributed offsetting receipts	(1)	11
Agency Outlays, net (discretionary and mandatory)	$ 4,277	$ 4,028

The accompanying notes are an integral part of the financial statements.

Notes to the Consolidated Financial Statements

Note 1 – Significant Accounting Policies

A. Reporting Entity

The Natural Resources Conservation Service (NRCS) is a technical service agency within the United States Department of Agriculture (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 the Department of Agriculture Reorganization Act of 1994, P.L. 103-354 (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 are 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 Acting Chief and extends down through the Associate Chief, 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 the Private Lands Conservation Operations, Watershed and Flood Prevention Operations, Watershed Rehabilitation, and Water Bank programs. There is also mandatory funding provided under the Watershed and Flood Prevention Operations and Watershed Rehabilitation programs.

Mandatory Programs

The Food Security Act of 1985, as amended by the Agriculture Improvement Act of 2018, (P.L. 115-334, 2018 Farm Bill) provides authority for NRCS to administer mandatory conservation program activities with funding provided through Commodity Credit Corporation (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 2018 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 2018 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;
- Feral Swine Eradication and Control Pilot Program;
- Wetland Mitigation Banking;
- Voluntary Public Access and Habitat Incentive Program; and
- Small Watershed Rehabilitation Program.

In addition, NRCS receives mandatory funding under Section 524(b) of the Federal Crop Insurance Act (7 U.S.C 1524(b)) 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 mandatory Farm Bill programs funded by CCC is $5.2 and $4.2 billion, respectively, as of September 30, 2020 and 2019.

B. Basis of Presentation and Accounting

The Consolidated Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and the Combined Statements of Budgetary Resources (hereinafter referred to as the "consolidated financial statements") and related footnotes are presented to report the assets, liabilities and net position; net costs; changes in net position; and budgetary resources of NRCS. The consolidated 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 consolidated 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.

C. Classified Activities

Accounting standards allow modification of certain presentations and disclosures, if needed, to prevent the disclosure of classified information. No such modifications were required.

D. 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.

E. Accounts Receivable, Net

Amounts owed to NRCS are recorded in the Financial Management Modernization Initiative (FMMI) financial system, which 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.

F. 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.

G. 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.

H. 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.

I. 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.

J. 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.

K. 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. Employees may invest up to the Internal Revenue Service limit into their TSP account each calendar year. 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).

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.

L. 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. 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. OMB Circular A-11 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. 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.

M. Use of Estimates

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

N. 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.

O. Reclassifications

NRCS updated its Fiscal Year 2019 Statement of Net Cost and Note 12, Program Costs by Region, to align to the revised goal structure in the *USDA Strategic Plan*. NRCS now aligns itself with the USDA Strategic Plan structures the Statements of Net Cost and related footnotes for FY 2020 and 2019 accordingly. These reclassifications have no effect on total assets, liabilities, net cost, net position, change in net position or budgetary resources, as previously reported.

Note 2 – Fund Balance with Treasury

NRCS' 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. Fund Balance with Treasury is an asset to the reporting entity, but not to the Government as a whole because it is a liability to the General Fund of the Treasury. Fund Balance with Treasury increases when appropriations and transfers in from other agencies are received and decreases with disbursements, and transfers out to other agencies and the Treasury. NRCS has no unused funds in cancelled appropriations that have not been returned to the U.S. Department of the Treasury.

	2020	2019
Status of Fund Balance with Treasury (in millions)		
Unobligated Balance:		
Available	$ 3,472	$ 3,218
Unavailable	2,661	2,724
Obligated balance not yet disbursed	7,791	6,452
Non-budgetary Fund Balance with Treasury	37	37
Total	$ 13,961	$ 12,431

Table 14: 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, 31 U.S.C. §1535, Public Law 101-646, 16 U.S.C. 3951, and Clean Water Act 118 (C). Intragovernmental accounts receivable are included in the allowance calculations, however, since these debts are promptly collected, an allowance for uncollectible accounts is not established for them.

Accounts Receivable with the public is comprised primarily of cost share agreements with agricultural producers and state and local governments owed to NRCS for providing financial and 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)	2020	2019
Intragovernmental		
Total Intragovernmental Receivables	$ 18	$ 18
Public		
Gross Receivables	3	6
Allowance for Doubtful Accounts	(1)	(2)
Total Public Receivables, Net	$ 2	$ 4
Total Receivables, Net	$ 20	$ 22

Table 15: 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 (PP&E), Net

(in millions)	Estimated Useful Life (Years)	Cost	Accumulated Depreciation and Amortization	Net Book Value
FY 2020				
Personal Property:				
Equipment	5-20	$ 101	$ 76	$ 25
Internal Use Software	5	184	91	93
Internal Use Software in Development	0	17	-	17
Total Personal Property		**$ 302**	**$ 167**	**$ 135**
Real Property:				
Land and Land Rights		$ 1	$ -	$ 1
Buildings, Improvements, and Renovations	15-30	15	11	4
Other Structures and Facilities	15-50	7	4	3
Assets Under Capital Lease	Varies	3	2	1
Total Real Property		**$ 26**	**$ 17**	**$ 9**
Total		**$ 328**	**$ 184**	**$ 144**
FY 2019				
Personal Property:				
Equipment	5-20	$ 83	$ 74	$ 9
Internal Use Software	5	99	74	25
Internal Use Software in Development	0	40	-	40
Total Personal Property		**$ 222**	**$ 148**	**$ 74**
Real Property:				
Land and Land Rights		$ 1	$ -	$ 1
Buildings, Improvements, and Renovations	15-30	15	10	5
Other Structures and Facilities	15-50	4	4	-
Assets Under Capital Lease	Varies	2	2	-
Total Real Property		**$ 22**	**$ 16**	**$ 6**
Total		**$ 244**	**$ 164**	**$ 80**

Table 16: General PP&E

Total PP&E and Accumulated Depreciation	**Net PP&E**
Balance Beginning of Year	$ 80
Capitalized Acquisitions	92
Dispositions / Revaluations	(2)
Depreciation Expense	(26)
Balance at End of Year	$ 144

Table 17: Total PP&E and Accumulated Depreciation, Net

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 consolidated 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' 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' 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 upon 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.

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.

The following table provides a count of the NRCS heritage asset and conservation easements as of September 30, 2020 and 2019.

Stewardship Property, Plant, and Equipment, Net

(in numbers)	Beginning Balance	New Assets	Ending Balance
FY 2020			
Heritage Assets			
Research Centers	1	0	1
Stewardship Land			
Conservation Easements	18,641	308	18,949
FY 2019			
Heritage Assets			
Research Centers	1	0	1
Stewardship Land			
Conservation Easements	18,344	297	18,641

Table 18: Stewardship PP&E

Note 6 – Advances to Others

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

Advances to Others (in millions)	2020	2019
Intragovernmental	$ 4	$ -
With the Public	21	42
Total Advances	$ 25	$ 42

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 Sheets 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)	2020	2019
Intragovernmental:		
Unfunded FECA Liability	$ 6	$ 7
Total Intragovernmental	$ 6	$ 7
Unfunded Leave	$ 77	$ 66
Federal Employee and Veterans' Benefits	32	38
Total liabilities not covered by budgetary resources	**$ 115**	**$ 111**
Total liabilities covered by budgetary resources	$ 1,128	$ 1,018
Total liabilities not requiring budgetary resources	17	27
Total Liabilities	**$ 1,260**	**$ 1,156**

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.

Other Liabilities (in millions)	2020 Non-Current	2020 Current	2020 Total	2019 Non-Current	2019 Current	2019 Total
Intragovernmental:						
Accrued Liabilities for Other Services	$ -	$ 39	$ 39	$ -	$ 20	$ 20
Employer Contributions and Payroll Taxes	-	12	12	-	9	9
Unfunded FECA Liability	3	3	6	4	3	7
Custodial Liabilities	-	1	1	-	1	1
Subtotal Intragovernmental	**$ 3**	**$ 55**	**$ 58**	**$ 4**	**$ 33**	**$ 37**
With the Public						
Accrued Liabilities for Grants and Agreements	$ -	$ 892	$ 892	$ -	$ 840	$ 840
Accrued Liabilities for Technical and Other Services	-	106	106	-	77	77
Unfunded Leave	-	77	77	-	66	66
Accrued Funded Payroll and Leave	-	37	37	-	29	29
Advances from Others	-	16	16	-	26	26
Accrued Liabilities for Land and Structures	-	6	6	-	6	6
Accrued Liabilities for Miscellaneous Services	1	1	2	-	5	5
Subtotal With the Public	**$ 1**	**$ 1,135**	**$1,136**	**$ -**	**$ 1,049**	**$ 1,049**
Total Other Liabilities	**$ 4**	**$ 1,190**	**$1,194**	**$ 4**	**$ 1,082**	**$ 1,086**

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. In FY 2020, as shown below, separate presentations are provided for non-cancellable operating leases and cancellable operating leases.

	2020
Entity as Lessee: Capital Leases (in millions)	
Summary of Assets Under Capital Lease	
Land and Buildings	$ 3
Less: Accumulated Amortization	(2)
Total Assets Under Capital Lease	$ 1

	2019
Entity as Lessee: Capital Leases (in millions)	
Summary of Assets Under Capital Lease	
Land and Buildings	$ 2
Less: Accumulated Amortization	(2)
Total Assets Under Capital Lease	$ -

Table 22: Capital Leases Summary

FY 2020
Future Payments Due for Operating Leases - Land and Buildings
(in millions)

Fiscal Year	**Federal Non-Cancellable**	**Nonfederal Non-Cancellable**	**Federal Cancellable**	**Nonfederal Cancellable**	**Total**
Year 1 (2021)	$ 13	$ 10	$ 17	$ 14	$ 54
Year 2 (2022)	-	-	27	18	$ 45
Year 3 (2023)	-	-	25	10	$ 35
Year 4 (2024)	-	-	22	6	$ 28
Year 5 (2025)	-	-	20	4	$ 24
After 5 Years	-	-	61	7	$ 68
Total Future Lease Payments	**$ 13**	**$ 10**	**$ 172**	**$ 59**	**$ 254**

Table 23: Total Future Payments for 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.

For the years ending September 30, 2020 and 2019, no pending legal matters or conditions, situations, or set of circumstances existed that were considered probable or reasonably possible, which require recognition (accrual) in the Balance Sheets or require further disclosure.

Note 11 – Funds from Dedicated Collections

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 is 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.

Balance Sheet as of September 30, 2020 (in millions)	Damage Assessment and Restoration Revolving Fund	Miscellaneous Contributed Funds	Total Funds from Dedicated Collections
Assets:			
Intragovernmental:			
Fund Balance with Treasury	$ 10	$ 1	$ 11
Total Intragovernmental Assets	$ 10	$ 1	$ 11
Total Assets	$ 10	$ 1	$ 11
Cumulative Results of Operations	$ 10	1	11
Total Net Position	$ 10	$ 1	$ 11
Total Liabilities and Net Position	**$ 10**	**$ 1**	**$ 11**

Statement of Changes in Net Position for the Period Ended September 30, 2020	Damage Assessment and Restoration Revolving Fund	Miscellaneous Contributed Funds	Total Funds from Dedicated Collections
Cumulative Results of Operations:			
Beginning Balance	$ 6	$ 1	$ 7
Budgetary Financing Sources:			
Transfers in/out without Reimbursement, Net	5	-	5
Other Financing Sources (Non-Exchange):			
Total Financing Sources	5	-	5
Net Cost of Operations	(1)	-	(1)
Net Change	4	-	4
Cumulative Results of Operations	$ 10	$ 1	$ 11
Net Position	**$ 10**	**$ 1**	**$ 11**

Table 24: Funds from Dedicated Collections – FY 2020

Balance Sheet as of September 30, 2019 (in millions)	Damage Assessment and Restoration Revolving Fund	Miscellaneous Contributed Funds	Total Funds from Dedicated Collections
Assets:			
Intragovernmental:			
Fund Balance with Treasury	$ 6	$ 1	$ 7
Total Intragovernmental Assets	$ 6	$ 1	$ 7
Total Assets	$ 6	$ 1	$ 7
Cumulative Results of Operations	6	1	7
Total Net Position	$ 6	$ 1	$ 7
Total Liabilities and Net Position	**$ 6**	**$ 1**	**$ 7**

Statement of Changes in Net Position for the Period Ended September 30, 2019	Damage Assessment and Restoration Revolving Fund	Miscellaneous Contributed Funds	Total Funds from Dedicated Collections
Cumulative Results of Operations:			
Beginning Balance	$ 3	$ 1	$ 4
Budgetary Financing Sources:			
Transfers in/out without Reimbursement, Net	3	-	$ 3
Other Financing Sources (Non-Exchange):			
Total Financing Sources	3	-	$ 3
Net Cost of Operations	-	-	$ -
Net Change	3	-	$ 3
Cumulative Results of Operations	$ 6	$ 1	$ 7
Net Position	**$ 6**	**$ 1**	$ 7

Table 25: Funds from Dedicated Collections – FY 2019

Note 12 – Program Costs by Region

NRCS primarily reflects costs through four major programs: Farm Security and Rural Investment Programs (Farm Bill), Private Lands Conservation Operations (Conservation Operations), Watershed and Flood Prevention Operations, and Watershed Rehabilitation Program. Smaller amounts of costs and revenue exist in other programs, such as the Water Bank Program, the Damage Assessment and Restoration Revolving Fund, and Miscellaneous Contributed Funds.

FY 2020 Program Costs by Program and Region (in millions)	Central Region	Northeast Region	Southeast Region	West Region	Centralized Program Support	Total
Farm Bill Programs						
Gross Costs	$ 1,258	$ 317	$ 836	$ 594	$ 262	$ 3,267
Earned Revenue	9	9	-	-	-	18
Net Cost	1,249	308	836	594	262	3,249
Conservation Operations Programs						
Gross Costs	171	78	106	114	434	$ 903
Earned Revenue	2	1	1	2	13	19
Net Cost	169	77	105	112	421	884
Watershed and Flood Prevention Operations Programs						
Gross Costs	101	15	98	51	3	268
Earned Revenue	-	-	16	-	-	16
Net Cost	101	15	82	51	3	252
Watershed Rehabilitation Programs						
Gross Costs	4	10	8	11	-	33
Earned Revenue	1	3	1	1	-	6
Net Cost	3	7	7	10	-	27
Other Programs						
Gross Costs	3	-	1	-	-	4
Earned Revenue	-	-	-	-	-	-
Net Cost	3	-	1	-	-	4
Total Gross Costs	**$ 1,537**	**$ 420**	**$ 1,049**	**$ 770**	**$ 699**	**$ 4,475**
Total Earned Revenue	**12**	**13**	**18**	**3**	**13**	**59**
Net Program Costs	**$ 1,525**	**$ 407**	**$ 1,031**	**$ 767**	**$ 686**	**$ 4,416**

Table 26: Program Costs by Region – FY2020

FY 2019 Program Costs by Program and Region (in millions)	Central Region	Northeast Region	Southeast Region	West Region	Centralized Program Support	Total
Farm Bill Programs						
Gross Costs	$ 1,034	$ 297	$ 740	$ 613	$ 210	$ 2,894
Earned Revenue	7	6	-	-	-	13
Net Cost	1,027	291	740	613	210	2,881
Conservation Operations Programs						
Gross Costs	178	74	97	108	362	819
Earned Revenue	2	2	1	3	3	11
Net Cost	176	72	96	105	359	808
Watershed and Flood Prevention Operations Programs						
Gross Costs	54	1	73	40	2	170
Earned Revenue	-	-	3	-	-	3
Net Cost	54	1	70	40	2	167
Watershed Rehabilitation Programs						
Gross Costs	7	6	10	9	1	33
Earned Revenue	1	1	-	2	-	4
Net Cost	6	5	10	7	1	29
Other Programs						
Gross Costs	4	-	-	-	-	4
Earned Revenue	-	-	-	-	-	-
Net Cost	4	-	-	-	-	4
Total Gross Costs	**$ 1,277**	**$ 378**	**$ 920**	**$ 770**	**$ 575**	**$ 3,920**
Total Earned Revenue	**10**	**9**	**4**	**5**	**3**	**31**
Net Program Costs	**$ 1,267**	**$ 369**	**$ 916**	**$ 765**	**$ 572**	**$ 3,889**

Table 27: Program Costs by Region – FY2019

Note 13 – Inter-Entity Costs

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. Goods and services are received from other federal agencies at no cost or at a cost less than the full cost to the providing federal entity. Consistent with Federal accounting standards, certain costs of the providing entity that are not fully reimbursed are recognized as imputed cost in the Statement of Net Cost and are offset by imputed revenue in the Statement of Changes in Net Position. Such imputed costs and revenues relate to business-type activities, employee benefits, and claims to be settled by the Treasury Judgment Fund. However, unreimbursed costs of goods and services other than those identified above are not included in our consolidated financial statements.

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. NRCS recognized imputed financing of $79 million and $92 million, respectively, for the periods ending September 30, 2020 and 2019 for accrued pension and postretirement benefit expense and the Treasury Judgment Fund.

Note 14 – Net Adjustment to Unobligated Balance, Brought Forward, October 1

For the year ended September 30, 2019, NRCS manually adjusted its Combined Statement of Budgetary Resources (SBR) to accurately reflect the beginning unobligated balance brought forward. The SBR adjustment decreased the balance of undelivered orders, brought forward on October 1, in the amount of $58 million. The adjustment decreased recoveries of prior year unpaid obligations by $41 million. The net increase to unobligated balances from prior year budget authority was $17 million.

Statement of Budgetary Resources
FY 2020 (in millions)

	2020	2019
Unobligated balance brought forward from prior year	5,942	5,193
Unobligated Beginning balance adjustment	-	58
Revised Unobligated balance, brought forward from prior year	**5,942**	**5,251**
Adjustments to budgetary resources made during current year		
Downward adjustment of prior year undelivered orders	453	422
Downward adjustment of prior year delivered orders	-	(41)
Other Adjustments	(62)	(9)
	391	**372**
Unobligated balance from prior year budget authority, net	**6,333**	**5,623**

Table 28: Adjustments to the Statement of Budgetary Resources

Note 15 – Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders were $6,934 and $5,644 million, respectively, for the years ended September 30, 2020 and 2019.

FY 2020 Undelivered Orders (in millions)	Federal	Non-Federal
Paid	$ 4	$ 21
Unpaid	278	6,631
Total	**$ 282**	**$ 6,652**

FY 2019 Undelivered Orders (in millions)	Federal	Non-Federal
Paid	$ -	$ 43
Unpaid	309	5,292
Total	**$ 309**	**$ 5,335**

Table 29: Undelivered Orders

Note 16 – 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 2020 or 2019 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 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 2019 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 17 – Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

The differences between the FY 2019 SBR and the FY 2019 actual numbers presented in the FY 2021 Budget of the United States Government are summarized in the table below. The President's Budget with actual numbers for FY 2020 has not yet been published. Upon release of the FY 2022 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.

FY 2019 Budget Reconciliation (in millions)	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$ 11,079	$ 5,155	$ 11	$ 4,017
Reconciling Items				
Expired Accounts not reflected in the Budget	(2,683)	(5)		
Budget of the U.S. Government	**$ 8,396**	**$ 5,150**	**$ 11**	**$ 4,017**

Table 30: Explanation of Differences Between SBR and the Budget of the US Government

Note 18 – Reconciliation of the Net Cost of Operations to Net Outlays

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting information. The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays.

For FY 2020, the differences are mostly from components of net costs that are not part of net outlays. This consists of activities that result in cost or revenue recognition but do not involve a cash outlay, most notably a $99 million increase in Conservation Operations and Conservation Stewardship Program accrued liabilities and disbursements in transit;

For FY 2019, The differences fall into two categories. The first category is components of net costs that are not part of net outlays. This category consists of activities that result in cost or revenue recognition but do not involve a cash outlay, such as $211 million of reduced liabilities for unfunded leave and FECA due to NRCS administrative employees being reassigned to the newly created Farm Production and Conservation Business Center; and

The second category is components of budgetary outlays that are not part of net cost. This category consists of activities that result in a cash outlay but do not result in cost or revenue recognition, including $24 million in new capital assets acquired.

FY 2020
Reconciliation of Net Cost to Net Outlays (in millions)

	Intragovernmental	With the Public	Total
Net Cost	**$ 631**	**$ 3,785**	**$ 4,416**
Components of Net Cost That Are Not Part of the Net Outlays:			
Property, Plant and Equipment Depreciation	-	(26)	(26)
Property, Plant and Equipment Disposal & Revaluation	-	9	9
Other	-	83	83
Increase/(Decrease) in Assets:			
Accounts Receivable	-	(1)	(1)
Other Assets	4	(21)	(17)
(Increase)/Decrease in Liabilities Not Effecting Budgetary Outlays:			
Accounts Payable	-	6	6
Salaries and Benefits	(3)	(8)	(11)
Other Liabilities	(17)	(83)	(100)
Other Financing Sources:			-
Federal employee Retirement Costs Paid by OPM and Imputed to the Agency (Note 13)	(79)	-	(79)
Total Components of Net Operating Cost That Are Not Part of Budgetary Outlays:	**$ (95)**	**$ (41)**	**$ (136)**
Acquisition of Capital Assets		(3)	(3)
Total Components of Net Outlays That Are Not Part of Net Cost :	**$ -**	**$ (3)**	**$ (3)**
Net Outlays	**$ 536**	**$ 3,741**	**$ 4,277**

FY 2019
Reconciliation of Net Cost to Net Outlays (in millions)

	Intragovernmental	With the Public	Total
Net Cost	**$ 545**	**$ 3,344**	**$ 3,889**
Components of Net Cost That Are Not Part of the Net Outlays:			
Property, Plant and Equipment Depreciation	-	(18)	(18)
Increase/(Decrease) in Assets:			
Accounts Receivable	9	-	9
Other Assets	-	6	6
(Increase)/Decrease in Liabilities:			
Other Liabilities	6	205	211
Other Financing Sources:			
Federal Employee Retirement Costs Paid by OPM and Imputed to the Agency (Note 13)	(92)		(92)
Total Components of Net Operating Cost That Are Not Part of Budgetary Outlays:	**($77)**	**$193**	**$116**
Components of Net Outlays That Are Not Part of Net Cost:			
Acquisition of Capital Assets	-	24	24
Other	-	(1)	(1)
Total Components of Net Outlays That Are Not Part of Net Cost :	**$ -**	**$ 23**	**$ 23**
Net Outlays	**$ 468**	**$ 3,560**	**$ 4,028**

Table 31: Reconciliation of Budgetary Resources Obligated to the Net Cost of Operations

Note 19 – COVID – 19

There was no significant negative effect on NRCS programs or activity due to COVID-19, nor was there a separate program targeting COVID 19-relief.

Note 20 – Subsequent Events

Management is not aware of any events or transactions that have occurred subsequent to the balance sheet date, but prior to the issuance of the financial statements, that have a material effect on the financial statements and therefore require adjustment or disclosure in the statements.

SECTION 3: 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' 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 as of September 30, 2020 and 2019 (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.

Stewardship Easement Condition Status

FY 2020 (in numbers)

Condition	Description	Easements Meeting the Condition	Percentage
Green	Easements are maintained in accordance with all terms and conditions.	14,722	78%
Yellow	Easements with minor administrative issues requiring corrective actions to fully comply with all terms and conditions	3,087	16%
Red	Easements with documented violations that require corrective action	839	4%
Not Assessed	Easements that did not require monitoring, had an undetermined condition, or were closed in FY 2020	301	2%
Total		**18,949**	**100%**

FY 2019 (in numbers)

Condition	Description	Easements Meeting the Condition	Percentage
Green	Easements are maintained in accordance with all terms and conditions.	14,231	76%
Yellow	Easements with minor administrative issues requiring corrective actions to fully comply with all terms and conditions	2,988	16%
Red	Easements with documented violations that require corrective action	931	5%
Not Assessed	Easements that did not require monitoring, had an undetermined condition, or were closed in FY 2019	491	3%
Total		**18,641**	**100%**

Table 32: Stewardship Easement 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 28 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 storage 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. Four additional sites include one small NRCS field office, one storage facility, and two unmanned relay stations for snow survey and climate data.

One property reported in the FY 2019 real property portfolio, an educational facility in Riverside, CA, was sold in August 2020. The FY 2020 deferred maintenance estimate reflects the disposal of this property.

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.

Required Supplementary Information (Unaudited)

Deferred Maintenance Policies

Deferred maintenance estimates for assets are based on condition surveys performed on a five-year maximum revolving schedule. NRCS conducted condition surveys in fiscal years 2014 and 2018. 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 as of September 30, 2020 and 2019.

Estimated Deferred Maintenance FY 2020		Cost to Return to Acceptable Condition (dollars)		
Asset Class	**Overall Condition**	**Beginning Balance**	**Ending Balance**	**Change in Cost from Beginning to Ending Balance (dollars)**
Office Buildings	critical-good	$ 374,993	$ 397,185	$ 22,192
Greenhouses	critical-good	430,918	173,643	$ (257,275)
Service Buildings	critical-good	264,964	228,263	$ (36,701)
Warehouse/Storage Buildings	critical-good	376,229	395,080	$ 18,851
Other Buildings	critical-good	124,985	129,815	$ 4,830
Irrigation Systems	poor-good	21,173	21,173	$ -
Other Structures and Facilities	critical-good	136,733	120,083	$ (16,650)
Total		**$ 1,729,995**	**$1,465,242**	**$ (264,753)**

Estimated Deferred Maintenance FY 2019		Cost to Return to Acceptable Condition (dollars)		
Asset Class	**Overall Condition**	**Beginning Balance**	**Ending Balance**	**Change in Cost from Beginning to Ending Balance (dollars)**
Office Buildings	critical-good	$ 385,872	$ 374,993	$ (10,879)
Greenhouses	critical-good	435,518	430,918	$ (4,600)
Service Buildings	critical-good	253,107	264,964	$ 11,857
Warehouse/Storage Buildings	critical-good	378,106	376,229	$ (1,877)
Other Buildings	critical-good	134,236	124,985	$ (9,251)
Irrigation Systems	poor-good	21,173	21,173	$ -
Other Structures and Facilities	critical-good	140,631	136,733	$ (3,898)
Total		**$ 1,748,643**	**$1,729,995**	**$ (18,648)**

Table 33: Deferred Maintenance, Totals By Asset Class

The change in cost to return assets to acceptable condition during the period reflects the disposal of the Riverside, CA property, deferred maintenance was addressed during the year, and new asset components that reached the end of their useful lives in FY 2020.

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 – Sill Usable: 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 for the years ending September 30, 2020 and 2019.

FY 2020

Condition Index	**Condition Rating**	**Number of Assets**
Greater than 95.00	good	366
Between 90.00 and 94.99	fair	29
Between 70.00 and 89.99	poor	35
Less than 70.00	critical	15
Total		**445**

FY 2019

Condition Index	**Condition Rating**	**Number of Assets**
Greater than 95.00	good	380
Between 90.00 and 94.99	fair	32
Between 70.00 and 89.99	poor	34
Less than 70.00	critical	16
Total		**462**

Table 34: Condition, Definition, and Characterization of Assets

Required Supplementary Information (Unaudited)

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 2020. NRCS has completed many of these projects to address deferred maintenance issues. Projects that are still in the process of being completed will affect NRCS' deferred maintenance estimate in FY 2021.

Required Supplementary Information (Unaudited)

Combined Statement of Budgetary Resources by Major Budget Account

Natural Resources Conservation Service
COMBINED STATEMENTS OF BUDGETARY RESOURCES BY MAJOR BUDGET ACCOUNT
For the Years Ended September 30, 2020 and 2019
(In Millions)

FY2020	Farm Bill	Conservation Operations	Watershed & Flood Prevention	Watershed Rehabilitation	Other	Total
Budgetary Resources:						
Unobligated balance from prior year budget authority, net (Notes 14 and 16)	$ 4,898	$ 221	$ 1,119	$ 84	$ 11	$ 6,333
Appropriations (discretionary and mandatory)	4,806	829	222	10	4	5,871
Spending authority from offsetting collections (discretionary and mandatory)	18	86	30	6	-	140
Total Budgetary Resources (Note 16)	**$ 9,722**	**$ 1,136**	**$ 1,371**	**$ 100**	**$ 15**	**$ 12,344**
Status of Budgetary Resources:						-
New obligations and upward adjustments (total)	$ 4,817	$ 906	$ 446	$ 34	$ 9	$ 6,212
Unobligated balance, end of year:						
Apportioned, unexpired accounts	2,327	159	916	63	6	3,471
Unapportioned, unexpired accounts	7	1	9	2	-	19
Unexpired unobligated balance, end of year	2,334	160	925	65	6	3,490
Expired unobligated balance, end of year	2,571	70	-	1	-	2,642
Total unobligated balance, end of year	4,905	230	925	66	6	6,132
Total Budgetary Resources	**$ 9,722**	**$ 1,136**	**$ 1,371**	**$ 100**	**$ 15**	**$ 12,344**
Outlays, Net:						
Outlays, net (discretionary and mandatory)	$ 3,194	$ 819	$ 239	$ 22	$ 4	$ 4,278
Distributed offsetting receipts	-	-	-	-	(1)	(1)
Agency Outlays, net (discretionary and mandatory)	$ 3,194	$ 819	$ 239	$ 22	$ 3	$ 4,277

FY 2019	Farm Bill	Conservation Operations	Watershed & Flood Prevention	Watershed Rehabilitation	Other	Total
Budgetary Resources:						
Unobligated balance from prior year budget authority, net (Notes 14 and 16)	$ 4,399	$ 277	$ 852	$ 87	$ 8	$ 5,623
Appropriations (discretionary and mandatory)	3,961	824	635	10	4	5,434
Contract Authority (discretionary and mandatory)						-
Spending authority from offsetting collections (discretionary and mandatory)	18	19	(3)	5	-	39
Total Budgetary Resources (Note 16)	**$ 8,378**	**$ 1,120**	**$ 1,484**	**$ 102**	**$ 12**	$ 11,096
						-
Status of Budgetary Resources:						-
New obligations and upward adjustments (total)	$ 3,821	$ 873	$ 423	$ 32	$ 5	$ 5,154
Unobligated balance, end of year:						$ -
Apportioned, unexpired accounts	1,981	128	1,035	67	7	3,218
Exempt from apportionment, unexpired accounts						-
Unapportioned, unexpired accounts	7	5	26	2	-	40
Unexpired unobligated balance, end of year	1,988	133	1,061	69	7	3,258
Expired unobligated balance, end of year	2,569	114	-	1	-	2,684
Total unobligated balance, end of year	4,557	247	1,061	70	7	5,942
Total Budgetary Resources	**$ 8,378**	**$ 1,120**	**$ 1,484**	**$ 102**	**$ 12**	$ 11,096
						-
Outlays, Net:						-
Outlays, net (discretionary and mandatory)	$ 3,085	$ 739	$ 157	$ 33	$ 3	$ 4,017
Distributed offsetting receipts	-	-	-	-	11	11
Agency Outlays, net (discretionary and mandatory)	$ 3,085	$ 739	$ 157	$ 33	$ 14	$ 4,028

SECTION 4: OTHER INFORMATION (Unaudited)

Management Challenges

The Reports Consolidation Act of 2000 requires 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 2020 Management Challenges Report:

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

OIG mentioned a recent audit regarding NRCS' administration of the EQIP program, which provides producers with financial and technical assistance to implement conservation projects. OIG looked at whether EQIP payment schedules were cost effective and represented producers' costs to implement the conservation practices. While OIG did not question the quality of the conservation practices implemented, NRCS' use of EQIP regional payment schedules did not consistently represent the producer cost to implement conservation practices. NRCS did not annually review the component prices as required, and did not consistently utilize a process for States to submit component price reconsiderations, which help ensure component prices more accurately reflect producer costs. As a result, NRCS' component cost list was significantly outdated. Since prices can fluctuate, accurate and current component prices are crucial to avoid inaccurate compensation and to maximize environmental benefits. Because NRCS relied on outdated and inaccurate component prices to calculate payment schedules, OIG questioned more than $2.16 billion in obligations which were incurred during FYs 2016–2017. OIG recommended that NRCS improve the effectiveness of the EQIP payment schedule process, including developing and implementing a process to validate component prices and ensuring the national cost team follows the improved payment schedule process.

NRCS generally agreed with the recommendations. The administration of payment schedules was transferred from the Office of the Regional Conservationists to the Policy and Program Analysis Division housed under the Management and Strategy Deputy Area. To mitigate the risk of improper payments and errors, a direct data feed from the Payment Schedule Application (PSA) tool was integrated with ProTracts. All component statuses in the PSA were changed from "release" to "auto price review" to ensure accuracy. Management streamlined the number of scenarios, components, and payments schedules required to be updated annually, resulting in less maintenance and oversight. A data dump of all vendor information and component price data was provided by the Client Experience Center. Once all component prices are completed and reviewed in the external format, data will be transferred into the PSA. The National Core and Cost Teams streamlined the number of payment schedule scenarios and components requiring price updates. Annual technical review of all components and scenarios will continue to be performed by subject matter experts to ensure compliance with policy, conservation practice standards, and agency statutory and regulatory authorities. Internal audits were performed on financial data and documentation developed by the National Cost Team.

Summary of Financial Statement Audit and Management Assurances

Summary of Existing Material Weaknesses

NRCS' previous and existing material weaknesses and lack of compliance with the Federal Financial Management Improvement Act are listed in the following tables.

Summary of Financial Statement Audit					
Audit Opinion	Unmodified				
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
Improved Entity Level Controls are Needed	1				1
TOTAL MATERIAL WEAKNESS	**3**				**3**

Table 35: Summary of Financial Statement Audit

Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)						
Statement of Assurance		Modified				
Material Weakness	Beginning Balance	New	Resolved	Unconsolidated	Reassessed	Ending Balance
Improved Entity Level Controls are Needed	1					1
Improved Accounting and Controls are Needed over Expenses	1					1
Improved Accounting and Controls Needed Over Obligations and Undelivered Orders	1					1
TOTAL MATERIAL WEAKNESS	**3**					**3**
Signficant Deficiency	Beginning Balance	New	Resolved	Unconsolidated	Reassessed	Ending Balance
Reconciling FBwT	1				1	0
Maintaining, Controlling and Monitoring the FMMI General Ledger	1				0	1
TOTAL SIGNIFICANT DEFICIENCY	**2**				**1**	**1**

Table 36: FMFIA Compliance

Compliance with Section 803(a) of 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 37: FFMIA Compliance

Payment Integrity

Background

Payment integrity means ensuring payments made to people on behalf of the 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-18-20 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 (IPERA), and the Payment Integrity Information Act of 2019, 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 2020 PAR or AFR may be found at https://paymentaccuracy.gov/.

In accordance with OMB Memorandum M-18-20, NRCS undertakes two separate mechanisms to identify the risk or existence of improper payments. First, NRCS estimates the amount of improper payments by sampling a statistically valid number of program payments from the prior year to determine if payments are proper or improper. Sample results are extrapolated to the universe of total program payments to determine the program's improper payment amount and rate. Second, NRCS identifies improper payments from targeted reviews and during the normal course of business. The results of the two mechanisms are discussed below.

Sampling and Estimation

NRCS designed and selected semi-annual statistical payment samples to estimate the amount and percentage of improper payment dollars. The goal of this review is to obtain an overall estimate of the percentage of improper payment dollars within +/- 3.0 percent precision at the 95 percent confidence level. By performing semi-annual sample testing, NRCS can obtain results in a timely manner providing the ability to identify issues and implement corrective actions to reduce improper payments on an ongoing basis.

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.

Sampling Results

NRCS selected the Farm Security and Rural Investment Act Program (FSRIP) payments for sampling to assess the risk of improper payments. This program includes 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.

In FY 2020, NRCS statistically sampled and tested 747 Farm Bill transactions which were incurred in FY 2019. The sample size was based on FY 2019 outlays of $2,806,922,551. No improper payments were identified. In FY 2019, NRCS sampled FY 2018 Farm Bill payments and estimated an improper payment rate of 1.34 percent. In FY 2019, NRCS improved its payment integrity levels above the statutory reporting threshold for three consecutive years and received concurrence from OIG to request relief from IPERA reporting requirements from OMB. Sampling results for FYs 2020 and 2019 are summarized below.

Improper Payments				
FY2020 (in millions)	**Total Outlays**	**Proper**	**Improper**	**Percent Improper**
Farm Security and Rural Investment Act Program (FSRIP) - Farm Bill	$2,806.92	$2,806.92	$0	0%
FY2019 (in millions)				
Farm Security and Rural Investment Act Program (FSRIP) - Farm Bill	$2,749.55	$2,712.60	$36.95	1.34%

Table 38: Sampled Improper Payment Risk ($ Millions)

In FY 2020, As NRCS also statistically sampled FY 2019 payments related to the Emergency Watershed Protection -Disaster Relief Program. This program was appropriated under the Bi-Partisan Budget Act of 2018 and deemed susceptible to improper payments by OMB Bulletin M-18-14, Implementation of Internal controls and Grant Expenditures for the Disaster-Related Appropriations. NRCS statistically sampled and tested 186 payments. Zero improper payments were identified.

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.

Improper Payments by Type			
FY2019 (in millions)			
Program	**Overpayments**	**Underpayments**	**Percent Improper**
Farm Security and Rural Investment Act Program	$36.95	$0	1.34%

Table 39: 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.

Improper Payments by Distributor			
FY2019 (in millions)			
Program	**Federal Government**	**Recipients of Federal Money**	**Percent Improper**
Farm Security and Rural Investment Act Program	$36.95	$0	1.34%

Table 40: 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 - FY 2019	**Overpayment ($ millions)**	**Overpayment Percentage**
Failure to Verify Other Eligibility Data - Program Eligibility was not Verified	$21.07	0.76%
Administration 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	$15.88	0.58%
Total	**$36.95**	1.34%

Table 41: Root Causes of Improper Payments

Future Outlays and Reduction Targets

The following chart depicts estimated outlays and reduction targets for FY2020 as reported in last year's AFR. Due to improvements to payment integrity rates, OMB granted NRCS FSRIP relief from Improper Payment reporting requirements. This program is no longer required to report future outlays and or reduction targets.

Improper Payment Estimates FY 2020			
Program	**Outlays ($ millions)**	**Improper Payments ($ millions)**	**Improper Payment Percentage**
Farm Security and Rural Investment Act Program	$3,438	$45.72	1.33%

Table 42: Future Outlays and Improper Payment Estimates for NRCS' High Risk Programs

Recapture of Improper Payment Reporting

In FY 2019 USDA spearheaded 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' programs were included in the USDA Supplier Credit Recovery Audit Program. USDA recaptured all improper payments identified through the program. In FY 2020, USDA did not renew the contract because it was deemed as not cost effective.

NRCS also recaptures funds outside of the Department's payment recapture audit process via various programmatic reviews and during the normal course of business. 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 tables below depict improper payments identified and recovered from the Supplier Credit Recovery Audit Program and overpayments recaptured outside of payment recapture audits.

FY 2020	**Improper Payment Amount Identified (dollars)**	**Improper Payment Amount Recovered (dollars)**
	$2.305,086	$1,516,932
FY 2019	**Improper Payment Amount Identified (dollars)**	**Improper Payment Amount Recovered (dollars)**
	$3,397,602	$1,968,800

Table 43: Improper Payments and Recoveries (in dollars)

Disposition of Funds Through Recapture Audit FY 2020 (in dollars)	Program or Activity	Amount Recovered	Type of Payment	Agency Expenses to Administer Program	Payment Recapture Auditor Fees	Funds to Treasury	Funds to Office of Inspector General	Funds Invested in the Federal Financial Improvement Program	Returned to NRCS for Original Purpose
	Supplier Credit Recovery Audit Program	$93,651	Contract	$0	$21,581	$49,676	$55	$2,907	$19,432
	Overpayments Recaptured Outside of Payment Recapture Audits	$1,516,932	Various	$0	$0	$0	$0	$0	$1,516,932

Disposition of Funds Through Recapture Audit FY 2019 (in dollars)	Program or Activity	Amount Recovered	Type of Payment	Agency Expenses to Administer Program	Payment Recapture Auditor Fees	Funds to Treasury	Funds to Office of Inspector General	Funds Invested in the Federal Financial Improvement Program	Returned to NRCS for Original Purpose
	Supplier Credit Recovery Audit Program	$3,244	Contract	$0	$0	$0	$0	$0	$3,244
	Overpayments Recaptured Outside of Payment Recapture Audits	$1,968,800	Various	$0	$0	$0	$0	$0	$1,968,800

Table 44: Disposition of Funds Through Recapture Audit

Agency Improvement of Payment Accuracy with the Do Not Pay Initiative

Prior to award, NRCS ensures contract and grant vendors maintain current registrations in the System for Award Management. Additionally, for Protracts contracts, NRCS ensures that payments are not made to deceased individuals by checking the Death Master File prior to obligation and payment. NRCS uses these systems directly, rather than through the DNP portal due to its extensive use of system interfaces in business processes. Though NRCS did not identify any improper payments through the DNP portal in FY 2020, NRCS will work more closely with the Department and other FPAC agencies in FY 2021 to streamline and consolidate DNP portal adjudication activities across all FPAC agencies.

Fraud Reduction Report

NRCS is committed to reducing fraud. NRCS continues to establish fraud reduction efforts in FY 2020. The Performance, Accountability and Risk (PAR) Division within the FPAC Business Center is partnering with NRCS management to more fully implement the fraud risk principle in the Standards for Internal Control and OMB Circular A-123 with respect to leading practices for managing fraud risk. NRCS annually reports fraud specific information to USDA/OIG as part of USDA's annual financial audit. NRCS tracks fraud investigations, audit findings, internal control deficiencies, and pending litigation. This information is provided to the Department. NRCS identifies potential fraud when preparing the quarterly high dollar improper payment report that is provided to the Department. Additionally, as discussed above, NRCS has several financial and administrative controls in place to prevent and detect fraud.

PAR is working with all FPAC agencies to develop fraud related policies and procedures and enhance existing controls.

PAR has identified risks and vulnerabilities to fraud with respect to payroll, grants, large contracts, and purchase and travel cards. Fraud specific risk assessments for purchase cards, travel cards, contracts, and human resources, as applicable, were conducted by PAR at the FPAC level in FY 2019. Additionally, annual OMB Circular A-123 risk assessments were conducted that incorporate specific internal and external fraud risk questions in the "Inherent Risk Considerations" section. The questions allow the respondent to rate the risk of the agency's process as either highly susceptible, susceptible, or not susceptible to fraud. The overall risk rating is dependent on the agency's responses, tallied along with other risk responses to determine the level and frequency of testing. Furthermore, the FPAC Enterprise Risk and Strategy Assessment was launched in FY 2020 to interview FPAC leadership and subject matter experts to create an FPAC Risk Profile that lists the top risks to achieving FPAC's mission and how FPAC will respond to these risks. FPAC launched an Enterprise Risk and Strategy Dashboard in FY2020 to provide continuous monitoring of FPAC's top enterprise risks using agency enterprise risk registers and an integrated executive dashboard. Risk Champions have been assigned to each agency to serve as primary points of contact for the creation of enterprise risks. Training on the Enterprise Risk and Strategy Program will be available on demand to all FPAC staff members by the end of FY 2020. Fraud risks are considered as part of this process.

In addition to the fraud related activities discussed above, in FY 2019, PAR began to establish an anti-fraud program. PAR will provide oversight and guidance to all FPAC agencies to help prevent and detect fraud, waste and abuse. In FY 2020, PAR continued their partnership with Treasury's Bureau of Fiscal Services Payment Integrity Center of Excellence to help identify potential fraud, anomalies and improper payments by analyzing payment data.

PAR will continue to enhance FPAC's anti-fraud program in FY 2021 and beyond. This includes finalizing a charter, policies and procedures, performing data analysis, conducting audits, reviews and investigations as required, and performing testing on fraud specific controls. PAR will also develop audit requirements to determine to what extent FPAC agencies have policies and procedures in place to prevent and detect fraud at the agency level.

Grants Programs

For FY 2020, federal agencies are required to provide a high-level summary of expired, but not closed, grants and cooperative agreement awards for which closeout has not yet occurred and for which the period of performance has elapsed by two years or more prior to September 30, 2020. This was not a requirement for FY 2019.

Category	2-3 Years	3-5 Years	More than 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	11	12	2
Number of Grants/Cooperative Agreements with Undisbursed Balances	1,470	376	49
Total Amount of Undisbursed Balances	$11,991,044.39	$5,103,083.03	$4,509,366.72

Table 45: Grants/Cooperative Agreements Not Closed and the Period of Performance Has Elapsed By More Than Two Years (amounts in dollars)

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