USDA United States Department of Agriculture

Natural Resources Conservation Service's Financial Statements for Fiscal Year 2019

Audit Report 10403-0002-11

November 2019

OFFICE OF INSPECTOR GENERAL

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

DATE: November 26, 2019

AUDIT NUMBER: 10403-0002-11

TO: Matthew Lohr
Chief
Natural Resources Conservation Service

ATTN: Jeffrey Machelski
Chief Financial Officer

Leon Brooks
Director, Compliance Division

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Natural Resources Conservation Service's Financial Statements for Fiscal Year 2019

This report presents the results of the audit of Natural Resources Conservation Service's (NRCS) financial statements for the fiscal year ending September 30, 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 22, 2019, 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, 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':

- accounting controls over obligations and undelivered orders;
- accounting controls over expenses and related accruals; 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 September 30, 2019

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KPMG LLP
Suite 12000
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Washington, DC 20006

Independent Auditors' Report

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, Natural Resources Conservation Service (NRCS), which comprise the consolidated balance sheet as of September 30, 2019, and the related consolidated statements of net cost and changes in net position, and combined statement of budgetary resources for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-03, *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, 2019, and its net cost, changes in net position, and budgetary resources for the year 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, Required Supplementary Information, and Required Supplementary Stewardship 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 audit 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 audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The Table of Contents, Message from the Chief on page 1, 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 audit 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, 2019, we considered the NRCS's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NRCS's internal control. Accordingly, we do not express an opinion on the effectiveness of the NRCS's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

KPMG

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

NRCS management did not report the material weakness *Improved Entity Level Controls are Needed* in its Management Assurances, included in the Management's Discussion and Analysis section of the accompanying *Agency Financial Report*.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the NRCS's consolidated financial statements as of and for the year ended September 30, 2019 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-03.

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's financial management systems did not substantially comply with the applicable Federal accounting standards and the United States Government Standard General Ledger at the transaction level. The results of our tests disclosed no instances in which the NRCS's financial management system did not substantially comply with the Federal financial management systems requirements.

NRCS's Response to Findings

The NRCS's response to the findings identified in our audit is described in Exhibit III. The NRCS's 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's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 22, 2019

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

During fiscal year (FY) 2019, NRCS's remediation efforts of undelivered orders (UDOs) prior years' findings focused on UDOs with periods of performance that expired or UDOs that had no activities for a period of 12 months or more. NRCS focused its efforts on ensuring that the UDOs balances as of October 1, 2018 (i.e., beginning of the fiscal year balance) and as of September 30, 2019 were materially correct.

Despite the ongoing remediation efforts, NRCS continued to lack effective internal controls during the fiscal year to ensure the existence and accuracy of UDOs and downward adjustments reported in its general ledger. Specifically, internal controls were not effective to ensure the:

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

During our testing of the UDOs balances and related activities, we noted the following:

- In testing the fiscal year UDOs beginning balance, we noted two exceptions out of a sample of 273 items that resulted from key punch errors by control operators when processing UDO transactions.
- In testing the September 30, 2019 UDOs balance, we noted four exceptions out of a sample of 302 items that resulted from a lack of supporting documentation, invalid obligations, and untimely adjustments for work delivered.
- In testing the downward adjustments to prior year unpaid obligations, we noted 11 exceptions out of a sample of 242 items that resulted from untimely recording, inadequate documentation, and incorrect use of the standard general ledger accounts based on the nature of the transaction.

These internal control weaknesses increase the risk of material misstatements in the general ledger and noncompliance with the Antideficiency Act.

The exceptions described above occurred because of a lack of:

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

The *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States, Principle No.10, *Design of Appropriate Types of Control Activities*, provides the requirements for the design of internal controls over transactions and balances. Principle No. 10 states, "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". Additionally, with regard to appropriate documentation of transactions and internal control, "Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained."

Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, Appendix D states, "financial events shall be recorded applying the requirements of the *U.S. Government Standard General Ledger* (USSGL) in the Treasury Financial Manual (TFM). Application of the USSGL at the transaction level means that each time an approved transaction is recorded in the financial management system, it will generate appropriate general ledger accounts for posting the transaction according to the rules defined in the USSGL guidance". Circular A-123, also states,

The financial system encompasses processes and records that:

- Identify and record all valid transactions;
- Describe on a timely basis the transactions in sufficient detail to permit proper classification of transactions for financial reporting;
- Measure the value of transactions in a manner that permits recording their proper monetary value in the financial statements; and
- Determine the time period in which transactions occurred to permit recording of transactions in the proper accounting period.

Recommendations Related to Accounting Controls over Obligations and Undelivered Orders:

1. We recommend that NRCS management refine and implement necessary enhancements to FMMI processes to better address the reliability of the period of performance data.

We continue to recommend that NRCS management:

2. Develop and implement a process that tracks agreement progress to ensure all signed agreements have been recorded in the financial system (*Recommendation 1B of Audit Report No. 10401-0009-11, November 2017*);

3. Monitor open obligations (USSGL accounts 4801 and 4802) to ensure that they are recorded in the appropriate period and liquidated timely (*Recommendation 1B of Audit Report No. 10401-0003-11 December 2013*); and

4. Provide adequate training to personnel related to the documentation requirements for support (*Recommendation 1C of Audit Report No. 10401-0003-11 December 2013*).

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

Improved Accounting Controls are Needed over Accrued Expenses

NRCS continues to lack 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).

When testing the completeness of the accrued expense balance, we noted six out of a sample of 40 items were not properly recorded as accrued expenses at fiscal year-end.

We noted that NRCS does not require control operators to provide confirmation for obligations that do not require an accrual. We also noted that NRCS did not perform a reconciliation of the unliquidated obligation (ULO) report to ascertain whether it is complete and accurate.

Additionally, in regards to the review and approval of Intra-Governmental Payment and Collection (IPAC/INTR) agency invoices, the allowance holders did not consistently certify their approval in a timely manner. NRCS did not receive confirmation from all responsible parties and did not follow up as appropriate.

When testing FY 2019 expense transactions, we noted the following 21 exceptions in a sample of 408 items:

- 15 exceptions related to expenses recorded in the current fiscal year that were not properly accrued in the prior fiscal year.
- Two exceptions related to transactions with future economic benefits (i.e., pre-paid expense) recorded as current fiscal year expenses.
- One exception related to a transaction that was not appropriately reclassified from expenses to Internal Use Software in Development (i.e., asset).
- One exception related to a transaction where the liquidation of the advance was not fully supported.
- Two exceptions related to transactions with untimely or incomplete Accounts Payable Services Branch (APSB)/ Payment Operations Section (POS) approval.

The exceptions above occurred because:

- NRCS personnel did not record expense accruals in accordance with NRCS General Manual, Title 250, *Financial Management*, Part 414.11, which requires accruals to be recorded for all expenses incurred but not yet paid using an invoice, performance report, written cost estimate, or confirmation letter;
- 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 policies and procedures in place to ascertain that all expenses incurred have been properly accrued and that the balances are complete and accurate as they do not perform a reconciliation over the ULO Report and do not require negative responses from responsible parties; and
- NRCS does not have adequate policies and procedures in place for monitoring control performance and conducting follow up with responsible parties that do not provide a response in order to ensure that all IPAC/INTR invoices have been properly certified on a monthly basis.

The *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States, Principle No.10, *Design Control Activities*, provides the requirements for the design of internal controls over transactions and balances. Principle No. 10 states, “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”. Additionally, with regard to appropriate documentation of transactions and internal control, “Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.”

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

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

Recommendations Related to Accounting Controls over Expenses and Related Accruals:

We recommend that NRCS management:

5. Implement policies and procedures for requiring negative responses from responsible parties, monitoring expense accrual responses and reviewing the relevant population for completeness and accuracy;

6. Establish policies and procedures over the monitoring of IPAC/INTR responses from responsible parties to ensure appropriate follow up is conducted, if necessary; and

7. Implement and enforce deadlines for follow up procedures over expenses and related accruals.

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

8. 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*);

9. Provide adequate training to personnel relating to the accrual policy (*Recommendation 3B of Audit Report No. 10401-0005-11, November 2015*); and

10. 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*).

Improved Controls are Needed Over the Monitoring of Service Organizations

NRCS did not maintain effective internal control to support its monitoring and end user controls relating to Service Organization Controls (SOC) reports that NRCS relies on, as part of its internal control environment (e.g., USDA National Finance Center, Federal Reserve Bank of Boston and USDA Financial Management Services). Such controls include, evaluating and documenting the roles of sub-service organizations and maintaining documentary evidence related to the implementation of complementary end user controls (CUEC) identified in the SOC reports.

The above conditions occurred because NRCS did not have detailed internal control policies and procedures to ensure that its service providers' SOC reports are properly reviewed for internal control results. Additionally, subservice organizations and CUECs noted as part of the SOC report are not considered in NRCS current internal control environment.

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

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

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

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

Recommendations Related to Monitoring of Service Organizations:

11. We recommend that NRCS management assess service and subservice organizations' SOC reports and adequately document review of such reports and the internal control environment impact, if any.

12. Additionally, we continue to recommend that NRCS management 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 considerations, such as 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).

Number 3: Improved Entity Level Controls are Needed

NRCS makes investments in the people, processes, and information technology that enable the timely and accurate accounting of the NRCS's daily activities. These activities include the personnel, payroll, procurement, grants, budgetary, and funds management activities of the NRCS. During FY 2019, NRCS went through a reorganization of its administrative functions. The USDA established a new administrative division, the Farm Production and Conservation (FPAC) Business Center, to oversee the previously noted activities of several USDA agencies. The FPAC Business Center is responsible for financial management, budgeting, human resources, information technology, acquisitions/procurement, customer experience, internal controls, risk management, strategic and annual planning, and other similar activities for the FPAC Mission area and its component agencies.

During the current fiscal year, NRCS management continued to implement corrective action plans to address internal control weaknesses and strengthen internal controls. However, the reorganization impacted NRCS's ability to assign personnel with the appropriate level of knowledge necessary to timely and formally react to financial statement audit requests that are expected and considered routine operational activities during the audit. The NRCS's inability to respond to requests for documentation related to NRCS's operations and transactions caused delays in completion of its annual audit process.

The above occurred because the reorganization into the FPAC Business Center resulted in a lack of delineated responsibilities, identification of personnel responsible for certain process areas and/or a lack of resources in the appropriate areas.

The *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States, Principle No. 3, *Establish Structure, Responsibility and Authority,* provides the requirements for the design of internal controls over transactions and balances. Principle No. 3 states, "To achieve the entity's objectives, management assigns responsibility and delegates authority to key roles throughout the entity. A key role is a position in the organizational structure that is assigned an overall responsibility of the entity. Generally, key roles relate to senior management positions within the entity." Additionally, with regards to the assignment of overall responsibilities, “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 recommend that NRCS management:

13. Design and implement effective controls to ensure that transactions are accurately recorded and that the related supporting documentation are readily available; 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.

COMPLIANCE WITH LAWS AND REGULATIONS

Number 4: NRCS Did Not Substantially Comply with the Federal Financial Management Improvement Act of 1996 (Repeat Condition)

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

We identified instances where the financial management systems did not substantially comply with the applicable Federal accounting standards and the United States Government Standard General Ledger (USSGL) at the transaction level. Specifically, we noted that the incorrect posting logic is being used for UDOs, accrued expenses and recoveries of prior year unpaid obligations and that FMMI does not allow for updates to the period of performance data related to these types of transactions.

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

NRCS'S 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: 2019.11.22 09:39:49 -05'00'

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

We have reviewed the KPMG Draft Independent Auditors' Report dated November 22, 2019. We are very pleased with the Auditors' unmodified opinion on NRCS's Fiscal Year (FY) 2019 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 2020.

Please feel free to reach out to Margo Erny at (202) 720-4877 or Kathleen Carroll at (816)926-6983 if you have any questions.

Natural Resources Conservation Service

Fiscal Year 2019

Agency Financial Report

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Message from the Chief

On behalf of the Natural Resources Conservation Service (NRCS), I respectfully submit the Agency Financial Report (AFR) for Fiscal Year (FY) 2019.

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

NRCS is comprised of more than 9,000 public servants working to help farmers, ranchers, and forest stewards across the country boost agricultural productivity and protect our natural resources through conservation.

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

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

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

NRCS has made tremendous strides in implementing the new Farm Bill in fiscal year 2019. NRCS launched the new On-Farm Conservation Innovation Trials, a sub-program of Conservation Innovation Grants (CIG), as well as the new 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 delivery of its bread-and-butter programs, including the Environmental Quality Incentives Program (EQIP), Conservation Stewardship Program (CSP), and Agricultural Conservation Easement Program (ACEP). NRCS anticipates publishing interim final rules for EQIP, CSP, ACEP, and RCPP in the coming weeks.

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 the development of the Conservation Assessment Ranking Tool (CART), which when complete, will modernize and streamline 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. NRCS has completed much of the foundational work for CART in fiscal 2019 to enable an anticipated deployment in 2020.

Better understand our customers' needs and improve overall customer service.

The first step in improving customer service is to clearly define who your customers are and know exactly what it is that they need. That is why NRCS has taken many steps this past year to hear directly from our customers, including asking for public comments on conservation practice standards. This past March we invited the nation's producers to give us direct feedback on the 150-plus conservation practices NRCS offers to America's farmers, ranchers and forest landowners to help them meet their business and natural resource needs. We have been able to use this information to improve conservation practice standards that support programs like EQIP and CSP, which help producers cover part of the costs for implementing these practices.

Heightening awareness and importance of soil health.

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 expensive inputs like nutrients and pesticides. Healthy soils are better at holding water and nutrients. That means more stored water during drought, and less flooding downstream in heavy rainfall. 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.

Fueling the development of new technologies and emerging markets.

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

Data-driven conservation.

We're using the latest science, research, and data to support our work. Through the Conservation Effects Assessment Project, we're examining the impact conservation has on working lands. We look at the effects of certain practices and how additional treatment could benefit that land and that producer. Sediment loss simulations, for instance, show that national cropland conservation practices can reduce edge-of-field sediment losses by 278 million tons per year relative to conditions if no conservation practices were in place. If you were to load that sediment onto a train, you'd fill 2.6 million train cars stretching over 30,000 miles.

Focusing on customer experience.

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

Harnessing the power of partnership.

Nothing we do would be possible without partnerships and we are continuing to develop a network across state lines and national borders, across industries and agencies, and across the public and private sector that enable us to deliver results for farmers for conservation and for the American people. Working together we achieve results that could never have been realized on our own. We serve our customers because our customers serve America. Our customers are feeding families in this country and around the world. The improvements they're making are protecting our soils, our air and our water supply for the future. Producers will continue to do what they do best and NRCS will continue to support them in those efforts.

Pursuit of knowledge enhancement opportunities.

Our agency's success is in part due to the tremendous opportunities we afford for development and training. To further expand on these opportunities, it is important that we foster a growth in knowledge and understanding of the agency work and production agriculture to our staff and new employees. To accomplish this, we will increase the mentoring opportunities, training and other experiences that engage our staff, customers, and partners. NRCS is a multi-faceted agency, and production agriculture relies on a variety of conservation practices. As such, the scope of work is vast and affords tremendous opportunities for learning. It's important that all of us are equipped with the tools and knowledge to assist each other and our customers.

Expanding our reach.

The work we do as conservationists impacts everyone. That is why outreach is a critical component of what we do each day. One of my priorities moving forward is to have a more concentrated effort in reaching young, beginning, small, minority, and veteran producers, as well as those living in historically underserved communities. Their success is our success. It is important for them to know NRCS is here to serve and help them reach conservation successes.

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

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

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

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

Major Program and Business Lines

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

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

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

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

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

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

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

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

Organizational Structure

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

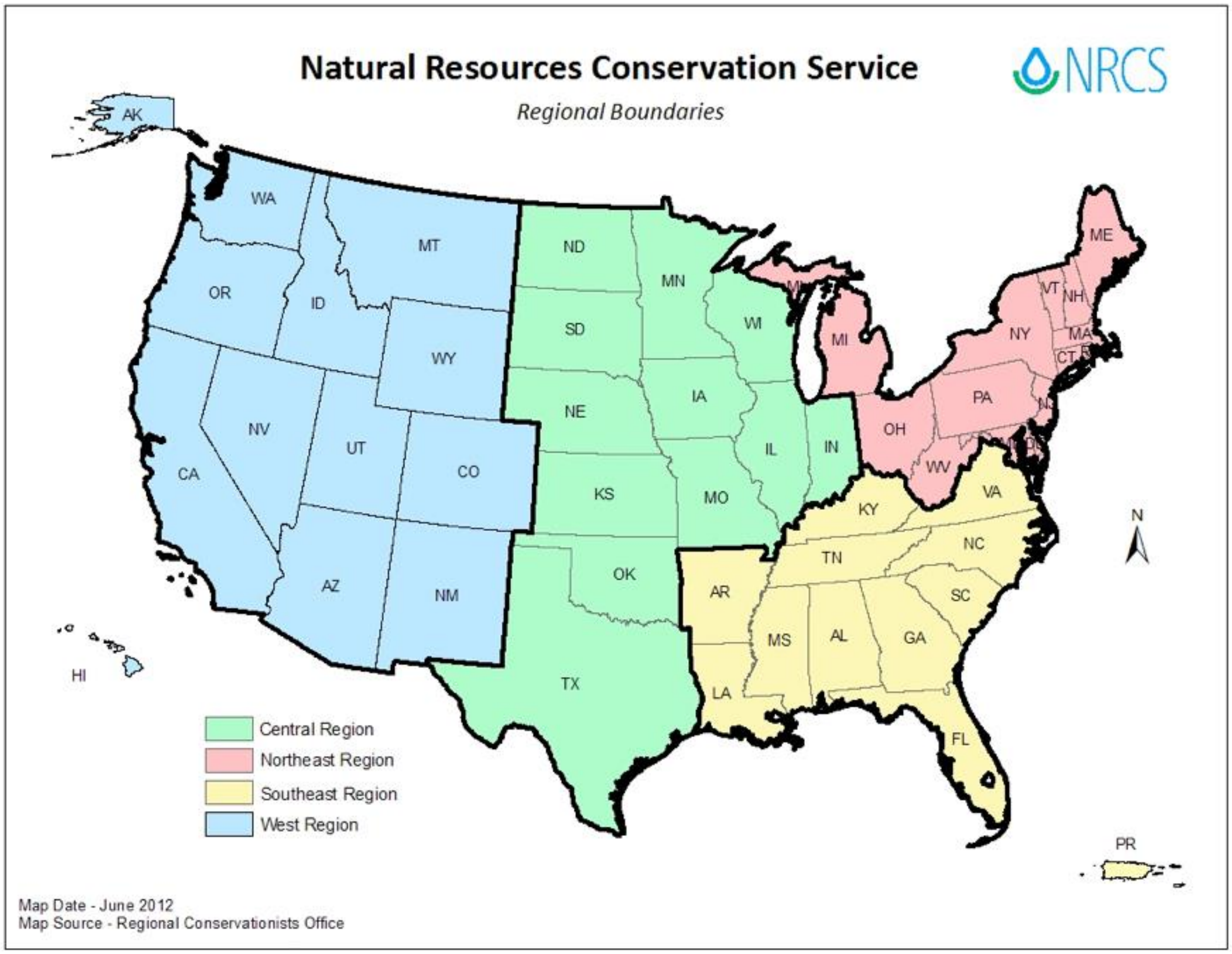

Table 1: NRCS Organizational Map of Regions

NRCS is a line and staff organization from the Field office through the State Conservationist to the Regional Conservationist, and to the Chief. The four Regions are organized geographically as Northeast, Southeast, Central, and West. At Headquarters, the Associate Chief 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

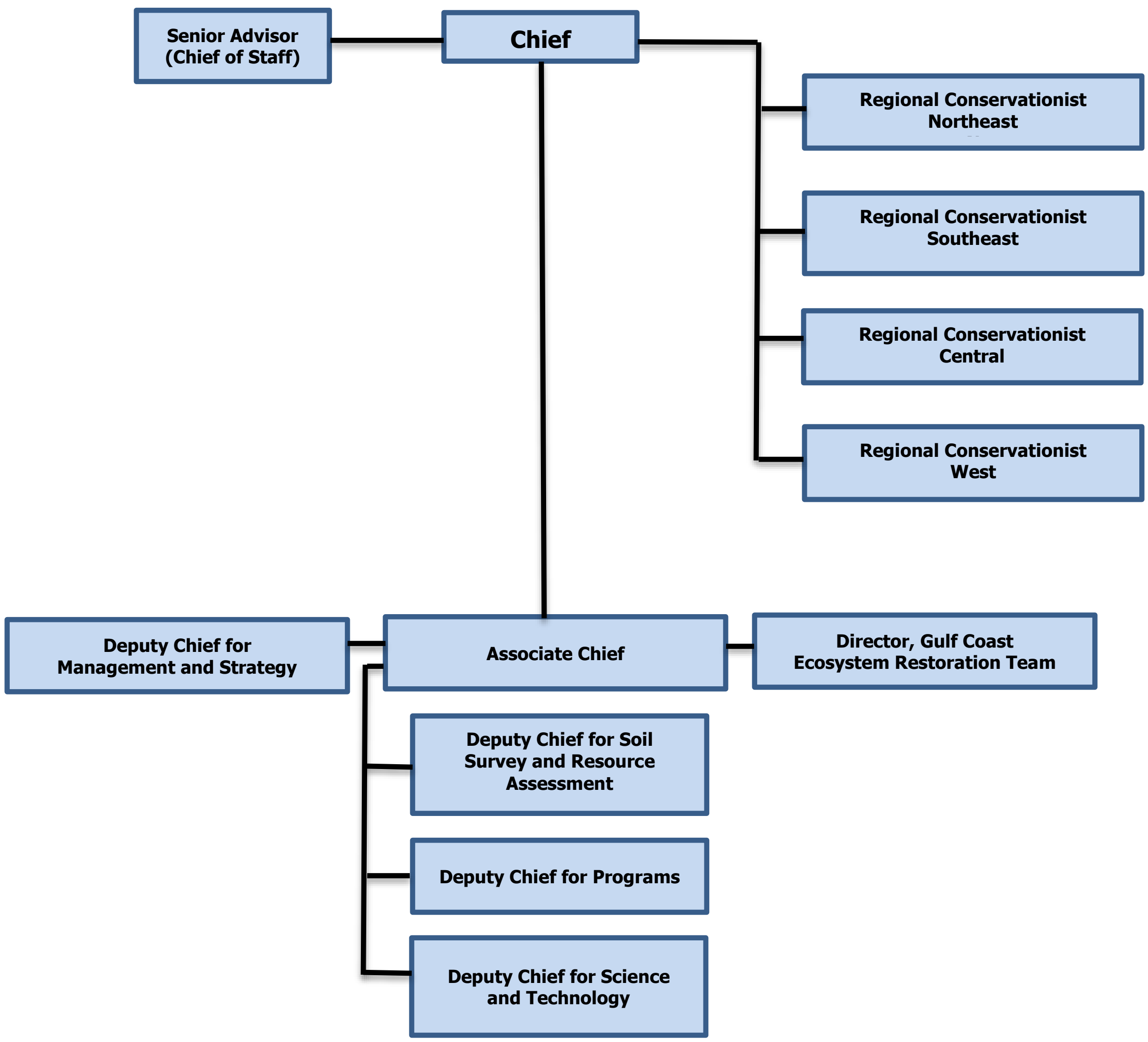

Table 2: NRCS Organizational Chart as of September 30, 2019

Strategic Planning and Accountability Framework

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

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

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

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

Performance Goals, Objectives, and Results

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

Strategic Goals

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

Management Initiatives

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

Strategic Goals/Management Initiatives, Strategic Objectives and Performance Measures

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

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

Table 3: NRCS Strategic Plan Update FY 2016-2018

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

Performance Goals and Results

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

USDA Objective	Key Performance Measure	Trend[1] FY 2015	FY 2016	FY 2017	FY 2018	As of September 30, 2019 Target	Actual	Result[2]
5.1 Enhance Conservation planning with Science-Based Tools and Information	Contract Implementation Ratio – EQIP (%)	N/A	N/A	N/A	87	87	Deferred[3]	Deferred[3]
	Practice Implementation Rate	N/A	N/A	N/A	43	53	Deferred[3]	Deferred[3]
5.2 Promote Productive Working Lands	Cropland with conservation applied to improve soil quality, Conservation Technical Assistance (CTA) – (millions of acres)	6.0	6.0	5.9	6.0	5.9	5.7	Needs Improvement
	Cropland with conservation applied to improve soil quality, Environmental Quality Incentive Program (EQIP) – (millions of acres)	3.0	2.8	3.0	3.1	3.1	3.4	Met
	Tons of sediment prevented from leaving cropland and entering waterbodies (million tons)	N/A	4.6	4.8	5.3	5.7	Deferred[3]	Deferred[3]
5.3 Enhance Productive Agricultural Landscapes	Working lands protected by conservation easements (thousand acres)	83.2	75.7	60.7	163	140	Deferred[3]	Deferred[3]

1. Rationale for Met Range: Estimated performance October 1, 2018 through September 30, 2019. Met: A KPI is considered met only if the actual is at least 100% of the target, Need Improvement: KPI actual is 10% or less within range of the target vale, and Unmet: KPI actual is more than 10% off range from the target.
2. FY 2019 performance data will be available at the end of the first quarter of FY 2020.
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 4: Performance Scorecard for FY 2019 – Trends, Targets, and Results

Performance Data Verification and Validation

NRCS regularly collects program performance data through a variety of data collection tools, processes, and related software that provides information on a routine basis to support the agency's strategic and performance planning, budget formulation, workforce planning, and accountability activities. NRCS tracks and evaluates field and state level conservation planning efforts and practice implementation through the PRS, except for easement program data which 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, 2018 through September 30, 2019. Numerous data quality mechanisms within PRS ensure the completeness of each performance record entry. Each performance record must adhere to a set of quality assurance requirements during the upload process. Business rules, definitions, and internal controls enforce accountability policies or business requirements and diagnose potential entry errors. Error reports are generated for managers at multiple levels to review for completeness or rejected entries, including the Strategic Planning and Accountability Deputy Area staff. On an annual basis, the State Conservationists certify that the data is complete and accurate. The conservation data from the National Planning and Agreements Database (NPAD) is then fed into a model to estimate the carbon and sediment retained. The model can provide estimates for thirty-nine percent of cropland conservation practices applied and fifty-six percent of the acres addressed with a conservation practice.

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

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

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

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

Analysis of Entity's Financial Statement and Stewardship Information

NRCS produces four principal 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. The following tables reflect the comparative amounts as of September 30, 2019 and September 30, 2018.

Assets

NRCS reported approximately $12.6 billion in assets as of September 30, 2019, representing an increase of 13 percent compared with assets reported as of September 30, 2018.

Assets (in millions)	FY 2019	FY 2018	Difference	Difference (Percentage)
Fund Balance with Treasury	$12,431	$11,036	$1,395	13%
Accounts Receivable	18	9	9	100%
Total Intragovernmental	**12,449**	**$11,045**	**$1,404**	**13%**
Accounts Receivable, Net	4	4	0	0%
General Property, Plant and Equipment, Net	80	75	5	7%
Advances to Others	42	36	6	17%
Total Assets	**$12,575**	**$11,160**	**$1,415**	**13%**

Table 5: Assets

Fund Balance with Treasury (FBwT) is an asset account that represents the amount in the agency's accounts with Treasury that is available only for the purposes for which the funds were appropriated, as discussed in Statements of Federal Financial Accounting Concepts (SFFAC) 2, Paragraph 84. According to SFFAC 2, FBwT is the aggregate amount for which the agency is authorized to make expenditures and pay liabilities. This account includes general funds, which are funds appropriated by Congress, clearing accounts, funds transferred from the Commodity Credit Corporation (CCC) using borrowing authority, a revolving fund, and a trust fund. The account increased $1.4 million compared to last year because of increases in funding for the Watershed and Flood Prevention Operations account to mitigate damage caused by hurricanes, wildfires, and other natural disasters that occurred last year. There was also carryover and new funding for the Farm Bill conservation programs. NRCS also has extended disbursing authority for the Farm Bill conservation programs to liquidate obligations incurred in the years for which the funds were available.

The balance of intragovernmental accounts receivable increased significantly because of new agreements and modification of prior year agreements relating to the Great Lakes Restoration Initiative and work being performed in the Louisiana coastal wetlands. The increase in advances related to the Environmental Quality Incentives Program (EQIP). The Agriculture Improvement Act of 2018, P.L. 115-334 (2018 Farm Bill) increased funding for EQIP and expanded its eligibility to include states, irrigation districts, and other similar entities for water conservation and irrigation efficiency projects.

Liabilities

NRCS reported approximately $1.2 billion in liabilities as of September 30, 2019, which is a decrease of 16 percent compared to the same period in FY 2018. The major liability amounts are provided in the table below.

Liabilities (in millions)	FY 2019	FY 2018	Difference	Difference (Percentage)
Accounts Payable	$2	$1	$1	100%
Other	37	44	(7)	(16)%
Total Intragovernmental Liabilities	$39	$45	$(6)	(13)%
Accounts Payable	30	32	(2)	(6)%
Federal Employee and Veterans' Benefits	38	42	(4)	(10)%
Other	1,049	1,249	(200)	(16)%
Total Liabilities	**$1,156**	**$1,368**	**$(212)**	**(16)%**

Table 6: Liabilities

The decrease in other intragovernmental liabilities reflects a reduction in obligations related to older Working Capital Fund agreements with USDA. Federal Employee and Veterans' Benefits declined when our administrative employees were reassigned on October 14, 2018, into the newly created Farm Production and Conservation Business Center, which provides centralized services to the Farm Service Agency (FSA), NRCS, and the Risk Management Agency (RMA). The decrease in other nonfederal liabilities is the result of a reduction in expenses for the Conservation Stewardship Program (CSP). The 2018 Farm Bill reduced CSP funding compared to previous years and significantly increased funding for the Agricultural Conservation Easement Program and Regional Conservation Partnership Program.

Net Position

NRCS reported a net position of approximately $11.4 billion as of September 30, 2019, representing an increase of 17 percent over the same period in FY 2018. Net position represents unexpended appropriations consisting of undelivered orders as well as unobligated funds, and the cumulative results of operations.

Net Position (in millions)	FY 2019	FY 2018	Difference	Difference (Percentage)
Unexpended Appropriations	$2,281	$1,773	$508	29%
Cumulative Results of Operations	9,138	8,019	1,119	14%
Total Net Position	**$11,419**	**$9,792**	**$1,627**	**17%**

Table 7: Net Position

The increase in unexpended appropriations of 29 percent from FY 2018 is related to the carryover of increased funding received last year for the Emergency Watershed and Watershed Protection and Flood Prevention Operations programs. Cumulative Results of Operations increased as a result of higher levels of Farm Bill funding and a decrease in expenses from last year, as discussed below.

Net Cost of Operations

NRCS's net cost of operations was approximately $4 billion as of September 30, 2019, representing a slight decrease from last year.

Net Cost of Operations (in millions)	FY 2019	FY 2018 (Unaudited)	Difference	Difference (Percentage)
Gross Costs	$3,920	$4,302	$(382)	(9)%
Less: Total Earned Revenue	31	40	(9)	(23)%
Total Net Cost of Operations	**$3,889**	**$4,262**	**$(373)**	**(9)%**

Table 8: Net Cost of Operations

Gross costs decreased compared to last year because of a reduction in expenses for the CSP program, as discussed above. Earned revenues decreased 23 percent over the past twelve months primarily due to the fact that a large portion of the new agreement activity discussed above was not finalized until the end of the third quarter. Thus, billings may have been issued at year end and have not yet been collected.

Budgetary Resources

Total budgetary resources were $11.1 billion as of September 30, 2019, representing an increase of nine percent from September 30, 2018.

Budgetary Resources (in millions)	FY 2019	FY 2018 (Unaudited)	Difference	Difference (Percentage)
Budgetary Resources	$11,096	$10,192	$904	9%

Table 9: Budgetary Resources

Budgetary resources are slightly higher than last year because of the carryover of funding the Emergency Watershed Protection Program and Watershed Protection and Flood Prevention Operations programs discussed above.

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 2019 Financial Statement Audit Report Results

In FY 2019, 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 2019 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	9/30/2020
Expenses	Material Weakness	Repeat Condition	9/30/2020
Non-Compliance with the Federal Financial Management Improvement Act	Non-Compliance with Laws and Regulations	Repeat Condition	9/30/2020

Table 10: Open Audit Recommendations

Remediation Activities

NRCS completed the following accomplishments during FY 2019 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 2020, 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, 2019. This assessment included the safeguarding of assets and compliance with applicable laws and regulation. As a result of this assessment, two material weaknesses, two financial system non-conformances and one instance of non-compliance with laws and regulations were noted. Therefore, NRCS is providing modified assurance that NRCS's systems of internal control comply with FMFIA and FFMIA. The details of these deficiencies are provided in the sections below.

Internal Controls over Financial Reporting

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

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

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

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

NRCS completed an assessment of the effectiveness of internal controls over operations, financial reporting and management systems for FY 2019. 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 considered for testing:

1. Fund Balance with Treasury Reconciliation
2. Period End Reporting
3. Unliquidated Obligations
4. Budgetary Authority
5. Budgetary Transfers
6. Disbursements within FMMI
7. Easements – Awards
8. Easements – Rights Transfer
9. Easements – Restoration
10. Easements – Monitoring
11. Grants – Awards
12. Grants – Draws and Expenditures
13. Grants – Monitoring
14. Protracts Grants – Awards
15. Protracts Grants – Draws and Expenditures
16. Protracts Grants – Monitoring
17. Contracts – Awards
18. Contracts – Accounts Payable

Testing was performed on select key controls deemed to have the most material impact upon the internal controls over financial reporting. We elected not to test any controls related to Unliquidated Obligations or Accruals due to the known material weaknesses in those areas.

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

Process	Deficiency Area	Weakness Category (MW/SD/CD) [1]	Year Identified	Original Estimated Completion Date	Revised Completion Date	Actual Completion Date
Section 2:						
Financial Reporting	Obligations/Unliquidated Obligations	MW	2013	9/30/2014	9/30/2020	N/A
Financial Reporting	Expenses/Accrued Expenses	MW	2015	9/30/2016	9/30/2020	N/A
Weakness Categories: MW = Material Weakness						

Table 11: Deficiency and Corrective Action Plan Status

Federal Financial Management Improvement Act (FFMIA) of 1996

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

During FY 2019, NRCS evaluated its financial management systems to assess compliance with FFMIA. The deficiencies reported herein were identified during the FY 2019 audit.

NRCS is not compliant with Federal accounting standards and the USSGL at the transaction level as of September 30, 2019. 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, 2019.

Deficiency	Year Originally Identified	Original Estimated Completion Date	Revised Estimated Completion Date
Non-Compliance with Federal Accounting Standards	2008	7/31/2009	9/30/2020
Non-Compliance with USSGL	2008	7/31/2009	9/30/2020

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

Compliance with Laws and Regulations

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

Audit Finding	Year Originally Identified	Original Estimated Completion Date	Revised Estimated Completion Date
Non-Compliance with FFMIA	2008	7/31/2009	9/30/2020

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

Federal Information Security Modernization Act (FISMA) of 2014

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

NRCS took a number of actions to improve information security during FY 2019, including:

- Ensuring 50 systems attained or maintained Authority to Operate (ATO) with FISMA requirements;
- Working to remediate approximately 30 Plan of Actions and Milestones (POA&Ms);
- Updating and enforcing security standard operating procedures for all NRCS information systems;
- Reviewing proposed changes to information systems and applications to determine the impact on the security posture;
- Vulnerability assessment scanning of NRCS systems on a routine and ad-hoc basis to ensure compliance and to identify opportunities to reduce risk;
- Assisting project and portfolio management and software development teams with vulnerability remediation measures for cloud, web, and Federal applications/systems;
- Deploying and managing security tools to identify, protect, detect, respond, and recover NRCS applications/systems.

Inspector General Act Amendments of 1988

The Inspector General Act requires management to complete all final actions on audit recommendations within one year of the date of the Inspector General's final audit report. As of September 30, 2019, there are two audits for which final action has not yet been completed in accordance with the act, one of which involves multiple USDA agencies and for which the remaining corrective actions do not involve NRCS.

GAO/OIG Active Audits

The summary of GAO/OIG active audits for the year ended September 30, 2019 provides an overview of the external audit activities in progress within NRCS. After the final report has been provided to the agency, NRCS may have several audit recommendations to complete before the audit is officially closed.

Active Audit Number/Name	Start Date	Final Report Date
OIG – NRCS Equitable Relief (ER) – 10601-0001-31	8/7/2018	1
OIG – Agriculture Conservation Enhancement Program – 10601-0007-31	8/1/2018	1
OIG – FY 2018 Financial Statement Audit	3/6/2018	8/31/2019
OIG – USDA's Fiscal Year 2017 Compliance with Improper Payment Requirements –50024-0013-11	12/18/2017	5/10/2018
OIG – Adjusted Gross Income Compliance Verification Process – 50024-0003-22	12/5/2017	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	1
OIG – NRCS Balance Sheet for FY 2017 – 14101-0009-11	3/7/2017	11/17/2017
OIG – Controls Over Conservation Innovation Grants – 10099-0001-23	2/7/2017	9/11/18
OIG – EO 13520, Reducing Improper Payments, High-Dollar Overpayments Report Review for Fiscal Year 2015 – 50024-0012-11	1/26/2017	9/27/2017
OIG – NRCS Balance Sheet for FY 2016 – 10401-0007-11	5/5/2016	11/14/2016
OIG – Fiscal Year 2018 Federal Information Security Management Act (FISMA) – 50501-0018-12	12/1/2017	10/12/2019
OIG – NRCS Conservation Stewardship Program – 10601-0001-32	10/25/2013	9/27/2016
OIG – NRCS Conservation Easement Compliance – 10601-0002-31	5/28/2013	7/30/2014
OIG – NRCS Regional Conservation Partnership Program Controls, Interim (2) – 10601-0004-31	9/08/2017	11/13/2017
OIG – NRCS Regional Conservation Partnership Program Controls – 10601-0004-31	9/12/2016	6/28/2018
OIG – Fiscal Year 2017 Federal Information Security Management Act (FISMA) – 50501-0015-12	3/1/2016	10/31/2017
OIG – Coordination of USDA Farm Program Compliance – FSA, RMA, and NRCS – 50601-0003-22	10/2/2014	1/17/2018
OIG – Fiscal Year 2016 Federal Information Security Management Act (FISMA) – 50501-0012-12	3/1/2016	11/9/2016
OIG – Reviewing the Integrity of USDA's Scientific Research Program – 50601-0006-31	3/23/2016	2/28/2018
GAO – Reducing Nutrient Pollution – 101099	9/19/2016	1
GAO – USDA's EQIP Could Be Improved to Optimize Benefits – 100307 (GAO-17-225)	9/17/2015	5/15/2017
GAO – Compliance with Improper Payments and Elimination and Recovery Act of 2010 (IPERA) – 100948 (GAO-17-484)	9/19/2016	6/13/2017
GAO – Puget Sound Restoration Efforts – 101196 (GAO-18-453)	11/22/2016	7/19/2018
GAO - Long Island Sound Restoration Efforts – 101350 (GAO-18-410)	2/1/2017	7/12/2018
GAO – San Francisco Bay Watershed Restoration Efforts – 101963 (GAO-18-473)	5/5/2017	8/16/2018
GAO – Assessing Technologies on Water Supplies – 102103	6/27/2017	6/11/2019
GAO – Offshore Oil Spill Response – 102207 (GAO-19-31)	9/6/2017	1/31/2019
GAO – Federal Efforts in Environmental Justice – 102432	11/15/2017	1
GAO – Federal Actions to Promote Bee Health – 361600 (GAO-16-220)	9/25/2014	3/11/2016
GAO – Wetland Conservation Compliance – 103431	4/29/2019	1
1: Audit in progress and final report release is pending.		

Table 14: GAO/OIG Active Audits Summary

Streamlining Conservation Delivery

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

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

Over the past 10 years, NRCS has been implementing five broad strategies under the CDSI effort. These include (1) redesigning NRCS's 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's 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.

NRCS will develop Version 3, Version 4, and Version 5 in FY 2020, with multiple releases to include the following functionality:

- Integration with Farmers.Gov (the multi-agency web application where all current and future CCG functionality will be provided);
- Enhanced eSignatures for multi-signer transaction status visibility in Farmers.Gov and 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's current conservation contract management and easement tracking software;
- Development of basic automated NRCS-Conservation Planning Assistance Environmental Evaluation form;
- Initial integration with NRCS's new Conservation Assessment and Ranking Tool (CART);
- Performing basic resource inventory and assessments to support a conservation plan;
- Ability to collect basic conservation practice certification information in the field on a mobile device;
- Ability to access and use 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 new IT investments crafted under the USDA FPAC Mission Area. 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.

Other Management Information, Initiatives, and Issues

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 GAAP for federal entities 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.

SECTION 2: FINANCIAL INFORMATION

Natural Resources Conservation Service

Consolidated Financial Statements

Consolidated Balance Sheet

As of September 30, 2019
(in millions)

Assets	
Intragovernmental:	
Fund Balance with Treasury (Note 2)	$12,431
Accounts Receivable (Note 3)	18
Total Intragovernmental	$12,449
Accounts Receivable, Net (Note 3)	$4
General Property, Plant, and Equipment, Net (Notes 4 and 9)	80
Advances to Others (Note 6)	42
Total Assets	**$12,575**
Stewardship PP&E (Note 5)	
Liabilities:	
Intragovernmental:	
Accounts Payable	$2
Other: (Notes 7 and 8)	
Accrued Liabilities for Other Services	$20
Employer Contributions and Payroll Taxes	9
Unfunded FECA Liability	7
Custodial Liabilities	1
Total Intragovernmental	$39
Accounts Payable	$30
Federal Employee and Veterans' Benefits (Note 7)	38
Other: (Note 8)	
Accrued Liabilities for Other Services	$928
Unfunded Leave (Notes 7 and 8)	66
Accrued Funded Payroll and Leave	29
Advances from Others	26
Total Other:	$1,049
Total Liabilities	**$1,156**
Commitments and Contingencies (Note 10)	
Net Position:	
Unexpended Appropriations	$2,281
Cumulative Results of Operations – Funds from Dedicated Collections (Note 11)	7
Cumulative Results of Operations – All Other Funds	9,131
Total Net Position	**$11,419**
Total Liabilities and Net Position	**$12,575**
The accompanying notes are an integral part of these consolidated financial statements.	

Natural Resources Conservation Service

Consolidated Statement of Net Cost

For the Year Ended September 30, 2019

(in millions)

Gross Program Costs:	
Goal 1 – Deliver High-Quality Science and Technology for Voluntary Private Lands Conservation	
Gross Costs (Notes 12, 13, and 14)	$401
Less: Earned Revenue (Notes 1L and 12)	5
Net Program Costs	**396**
Goal 2 – Promote Productive Working Lands and Healthy Waters	
Gross Costs (Notes 12 and 13)	2,931
Less: Earned Revenue (Notes 1L and 12)	18
Net Program Costs	**2,913**
Goal 3 – Protect and Enhance Productive Agricultural Landscapes	
Gross Costs (Notes 12 and 13)	415
Less: Earned Revenue (Notes 1L and 12)	3
Net Program Costs	**412**
Goal 4 – Support Healthy Watersheds and Diverse Land Use Communities	
Gross Costs (Notes 12 and 13)	173
Less: Earned Revenue (Notes 1L and 12)	5
Net Program Costs	**168**
Total Gross Costs:	**3,920**
Less: Total Earned Revenue	**31**
Net Cost of Operations (Note 18)	**$3,889**
The accompanying notes are an integral part of these consolidated financial statements.	

Natural Resources Conservation Service

Consolidated Statement of Changes in Net Position

For the Year Ended September 30, 2019

(in millions)

	Funds from Dedicated Collections (Note 11)	All Other Funds	Total
Unexpended Appropriations:			
Beginning Balance	$0	$1,773	$1,773
Budgetary Financing Sources:			
Appropriations received	$0	$1,418	$1,418
Appropriations transferred out	0	5	5
Other Adjustments	0	(14)	(14)
Appropriations Used	0	(901)	(901)
Total Budgetary Financing Sources	$0	$508	$508
Total Unexpended Appropriations	$0	$2,281	$2,281
Cumulative Results of Operations:			
Beginning Balances	$4	$8,015	$8,019
Budgetary Financing Sources:			
Other Adjustments	$0	$(259)	$(259)
Appropriations used	0	901	901
Transfers-In (Out) Without Reimbursement	3	4,271	4,274
Other Financing Sources (Non-Exchange):			
Imputed Financing (Note 14)	$0	$92	$92
Total Financing Sources	$3	$5,005	$5,008
Net Cost of Operations	0	(3,889)	($3,889)
Net Change	3	1,116	1,119
Cumulative Results of Operations	$7	$9,131	$9,138
Net Position	**$7**	**$11,412**	**$11,419**

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

Natural Resources Conservation Service

Combined Statement of Budgetary Resources

For the Year Ended September 30, 2019

(in millions)

Budgetary Resources:	
Unobligated balance from prior year budget authority, net (discretionary and mandatory) (Note 17)	$5,623
Appropriations (discretionary and mandatory)	5,434
Spending authority from offsetting collections (discretionary and mandatory)	39
Total budgetary resources (Note 17)	$11,096
Status of Budgetary Resources	
New obligations and upward adjustments	$5,154
Unobligated balance, end of year:	
Apportioned, unexpired accounts	3,218
Unapportioned, unexpired accounts	40
Unexpired unobligated balance, end of year	3,258
Expired unobligated balance, end of year	2,684
Unobligated balance, end of year	$5,942
Total budgetary resources (Note 17)	$11,096
Outlays, Net:	
Outlays, net (discretionary and mandatory)	$4,017
Distributed offsetting receipts	11
Agency outlays, net (discretionary and mandatory)	$4,028
The accompanying notes are an integral part of these consolidated 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 9,000 employees work across the nation where NRCS operates or conducts mission-related activities. NRCS is a line and staff organization. The line of authority begins with the Chief and extends down through the Associate 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 six lines of business: Conservation Implementation, Conservation Operations, Conservation Planning and Technical Assistance, Natural Resources Technology Transfer, Natural Resources Inventory, and Natural Resources Assessment.

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 for FY 2019 is $4.2 billion.

B. Basis of Presentation and Accounting

The Consolidated Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and the Combined Statement 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.

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. Federal policy requires that non-federal customers be billed in advance for the entire amount of the agreement. Bills are issued for actual costs in accordance with terms of the underlying agreement. At the end of each quarter, accruals are recorded for the earned, unbilled portion of each agreement. An entry is recorded to estimate an allowance for possible uncollectible amounts from non-federal customers based on the historical aging of receivables. 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.

Note 2 – Fund Balance with Treasury

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

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

Table 15: Status of Fund Balance with Treasury

Note 3 – Accounts Receivable, Net

Intragovernmental accounts receivable represent amounts due under reimbursable and cooperative agreements with federal entities for services provided by NRCS under the Economy Act, 31 U.S.C. §1535. An allowance for uncollectible accounts is not established for these amounts because monies due from other federal agencies are considered fully collectible.

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

Accounts Receivable (in millions)	Gross Receivables	Allowance for Uncollectible Accounts	Net Receivables
Intragovernmental	$18	0	$18
With the Public	6	(2)	4
Total	**$24**	**$(2)**	**$22**

Table 16: Accounts Receivable

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

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

General Property, Plant, and Equipment, Net (in millions)	Estimated Useful Life (Years)	Cost	Accumulated Depreciation and Amortization	Net Book Value
Personal Property:				
Equipment	5-20	$83	$74	$9
Internal Use Software	5	99	74	25
Internal Use Software in Development	0	40	0	40
Total Personal Property		**222**	**148**	**74**
Real Property:				
Land and Land Rights		1	0	1
Buildings, Improvements, and Renovations	15-30	15	10	5
Other Structures and Facilities	15-50	4	4	0
Assets under Capital Leases	Varies	2	2	0
Total Real Property		**22**	**16**	**6**
Total		**$244**	**$164**	**$80**

Table 17: General PP&E

Note 5 – Stewardship PP&E

Stewardship PP&E consists of assets whose physical properties resemble those of general PP&E that are traditionally capitalized in the 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's mission objectives in administering the conservation easement programs are to provide landowners with financial and technical assistance in return for maintaining and improving high quality productive soils, clean and abundant water, healthy plant and animal communities, clean air, an adequate energy supply, and working farm and ranch lands.

NRCS's objectives in managing, monitoring, and enforcing the terms and conditions of easement deeds are to ensure that (1) taxpayer investments are properly used in accordance with the intent of the program; (2) the agency is a good steward of the land; and (3) the land is properly maintained and managed compliant with agreed 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. As of September 30, 2019, NRCS had 18,641 stewardship land easements. The additions of 297 include 286 new stewardship land easements and 11 added to the beginning of the fiscal year balance.

Heritage Assets

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

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

Stewardship PP&E (in numbers)	Beginning Balance 2019	Adjustments to the Beginning Balance	New Easements	Ending Balance 2019
	Heritage Assets			
Research Centers	1	0	0	1
	Stewardship Land			
Conservation Easements	18,344	11	286	18,641

Table 18: Stewardship PP&E

Note 6 – Advances to Others

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

Advances to Others (in millions)	2019
With the Public	42
Total	**$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 Sheet are currently not funded by budgetary resources. Examples include unfunded employee costs for annual leave earned but unused and FECA benefits that are accrued to cover liabilities associated with employee deaths, disabilities, medical issues, and other costs for which funds have not been appropriated. Custodial liabilities represent collections made on behalf of the General Fund of the Treasury for civil monetary penalties and interest or commercial fines and penalties and are transferred to Treasury at year end. The other liabilities will be paid at the time that a qualifying event occurs and will be expended from appropriations available at that time.

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

Liabilities Not Covered by Budgetary Resources (in millions)	2019
Intragovernmental:	
FECA	$7
Total Intragovernmental	$7
Unfunded leave	66
Federal Employee and Veterans' Benefits	38
Total liabilities not covered by budgetary resources	**$111**
Total liabilities covered by budgetary resources	$1,018
Total liabilities not requiring budgetary resources	$27
Total Liabilities	**$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. The liability for deposit funds and clearing accounts reflects the amount that offsets collections awaiting disposition or reclassification.

Other Liabilities (in millions)	FY 2019		
	Non-Current	Current	Total
Intragovernmental:			
Accrued Liabilities for Other Services	$0	$20	$20
Employer Contributions and Payroll Taxes	0	9	9
Unfunded FECA Liability	4	3	7
Custodial Liabilities	0	1	1
Subtotal Intragovernmental	**4**	**33**	**37**
With the Public:			
Accrued Liability for Grants and Agreements	0	840	840
Accrued Liabilities for Technical and Other Services	0	77	77
Unfunded Leave	0	66	66
Accrued Funded Payroll and Leave	0	29	29
Advances from Others	0	26	26
Accrued Liabilities for Land and Structures	0	6	6
Accrued Liabilities for Miscellaneous Services	0	5	5
Subtotal With the Public	**0**	**1,049**	**1,049**
Total Other Liabilities	**$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. The values for capital lease assets and future payment information for operating leases are shown in the tables below.

Entity as Lessee: Capital Leases	2019 (in millions)
Summary of Assets Under Capital Lease	
Land and Buildings	$2
Less: Accumulated Amortization	(2)
Total Assets Under Capital Lease	**$0**

Table 22: Capital Leases Summary

Future Payments Due for Non-Cancellable Operating Leases (in millions) Fiscal Year	Federal	NonFederal	Land and Buildings
Year 1 (2020)	$29	$23	$52
Year 2 (2021)	24	17	41
Year 3 (2022)	22	11	33
Year 4 (2023)	20	7	27
Year 5 (2024)	13	4	17
After 5 Years	34	13	47
Total Future Lease Payments	**$142**	**75**	**$217**

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.

As of September 30, 2019, no pending legal matters exist that were considered probable or reasonably possible, which require recognition (accrual) in the Balance Sheet or require further disclosure.

Note 11 – Funds from Dedicated Collections

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 – Funds from Dedicated Collections 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	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**

Table 24: Funds from Dedicated Collections - Balance Sheet

Statement of Changes in Net Position – Funds from Dedicated Collections
For the Year Ended September 30, 2019
(in millions)

Cumulative Results of Operations	Damage Assessment and Restoration Revolving Fund	Miscellaneous Contributed Funds	Total Funds From Dedicated Collections
Beginning Balance	$3	$1	$4
Transfers In/Out Without Reimbursement	3	0	3
Total Financing Sources	3	0	3
Net Cost of Operations	0	0	0
Net Change	3	0	3
Cumulative Results of Operations	6	1	7
Net Position	**$6**	**$1**	**$7**

Table 25: Funds from Dedicated Collections - Statement of Changes in Net Position

Note 12 – Program Costs by Segment

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

Program Costs by Lines of Business (in millions)	Gross Costs	Earned Revenue	Net Cost
Conservation Implementation	$2,695	$17	$2,678
Conservation Operations	515	4	511
Conservation Planning and Technical Assistance	497	6	491
Natural Resources Technology Transfer	146	2	144
Natural Resources Inventory	66	2	64
Natural Resources Assessment	1	0	1
Totals	**$3,920**	**$31**	**$3,889**

Table 26: Program Costs by Line of Business

Note 13 – Cost of Stewardship PP&E

Costs of administering the program for stewardship land amounted to $183 million for the year ended September 30, 2019. These costs consist primarily of easement acquisition costs, the costs associated with the acquisition (closing services, surveys, and due diligence activities) and restoration.

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

Note 14 – 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 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 $92 million for the year ended September 30, 2019 for accrued pension and postretirement benefit expense and the Treasury Judgment Fund.

Note 15 – Net Adjustment to Unobligated Balance, Brought Forward, October 1

NRCS manually adjusted its Combined Statement of Budgetary Resources (SBR) to accurately reflect the beginning unobligated balance brought forward for FY 2019. 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.

Note 16 – Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders are $5,644 million for the year ended September 30, 2019.

Undelivered Orders (in millions)	Federal	Non-Federal
Paid	$0	$43
Unpaid	309	5,292
Total	$309	5,335

Table 27: Undelivered Orders

Note 17 – Legal Arrangements Affecting the Use of Unobligated Balances

Under the authority provided in the 2004 and 2008 Farm Bills, NRCS generally received funding for the mandatory conservation programs with one-year authority, which would normally cause the funds to be cancelled five years after the close of the fiscal year for which they were provided. However, many of the obligations entered into with the mandatory conservation program funding do not disburse within the five-year period. Therefore, Congress has provided extended disbursement authority for these funds, which allows the agency to retain the funds and continue disbursing for valid obligations made during the period the funds were available for obligation. The extended disbursing authority does not provide the authority to enter into new obligations in FY 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 18 – Explanation of Differences Between the Combined Statement of Budgetary Resources and the Budget of the United States Government (Unaudited)

The differences between the unaudited FY 2018 SBR and the FY 2018 actual numbers presented in the FY 2020 Budget of the United States Government are summarized in the table below. The President's Budget with actual numbers for FY 2019 has not yet been published. Upon release of the FY 2021 budget, it will be available at the OMB website. OMB Circular A-136 states that the reconciliation should identify and explain material differences between amounts reported in the SBR and actual amounts reported in the Budget of the United States Government as required by U.S. GAAP.

Budget Reconciliation (in millions)	Budgetary Resources	New Obligations & Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources (unaudited)	$10,192	$4,999	(5)	$3,991
Reconciling Items				
Expired Accounts not reflected in the Budget	(2,654)	(4)		0
Budget of the U.S. Government	**$7,538**	**$4,995**	**(5)**	**$3,991**

Table 28: Explanation of Differences Between SBR and the Budget of the US Government

Note 19 – Reconciliation of Net Cost 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.

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 and includes the following:

$18 million in depreciation expense reflecting a large capital investment in the CDSI internal use software project;

$9 million in new receivables resulting from new agreements and the modification of prior year agreements relating to the Great Lakes Restoration Initiative and work being performed in the Louisiana coastal wetlands;

$6 million in new advances related to increased funding for EQIP programs;

$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

$92 million of imputed financing for accrued pension and postretirement benefit expense and the Treasury Judgment Fund (see Note 14).

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 and includes the following:

$24 million in new capital assets acquired; and

$1 million decrease in receivables due to Treasury receipt accounts (displayed as Other in the reconciliation).

(in millions)	Intragovernmental	With the Public	Total FY 2019
Net Cost	**$545**	**$3,344**	**$3,889**
Components of Net Cost That Are Not Part of Net Outlays:			
Property, Plant, and Equipment Depreciation	0	(18)	(18)
Increase/(Decrease) in Assets:			
Accounts Receivable	9	0	9
Other Assets	0	6	6
(Increase)/Decrease in Liabilities:			
Other Liabilities (Unfunded Leave, FECA)	6	205	211
Other Financing Sources:			
Federal Employee Retirement Costs Paid by OPM and Imputed to the Agency (Note 14)	(92)	0	(92)
Total Components of Net Cost That Are Not Part of Net Outlays	$(77)	$193	$116
Components of Net Outlays That Are Not Part of Net Cost:			
Acquisition of Capital Assets	0	24	24
Other	0	(1)	(1)
Total Components of Net Outlays That Are Not Part of Net Cost	$0	$23	$23
Net Outlays	**$468**	**$3,560**	**$4,028**

Table 29: Reconciliation of Net Cost of Operations to Net Outlays

SECTION 3: REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (Unaudited)

Human Capital

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

National Volunteer Program

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

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

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

The majority of Earth Team volunteers spend their time doing conservation implementation, conservation planning and technical consultation, conservation education, and outreach and communication. NRCS utilized over 42,000 volunteers who donated over 324,000 hours of service for the year ended September 30, 2019. Volunteer time is valued at $8 million dollars (using the hourly rate of $24.69 as estimated by the Independent Sector, a national volunteer leadership organization).

Research and Development

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

Plant Materials Centers

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

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

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

The PMC expenses reported below include the costs of applied research efforts, development activities, administrative costs and the cost of operating the facilities. The majority of these costs are incurred directly by NRCS.

Research and Development Investment (in millions)	2015	2016	2017	2018	2019	Total Investment
Plant Materials Centers	$9	$11	$12	$12	$13	$57

Table 30: Five Year Summary of Plant Materials Centers Research and Development Costs

Soil and Plant Science Research

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

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

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

Research and Development Investment (in millions)	2015	2016	2017	2018	2019	Total Investment
Soil and Plant Science Research	$2	$1	$1	$1	$1	$6

Table 31: Five Year Summary of Soil Science Research and Development Costs

Soil and plant science research outputs are primarily technical documents prepared for the scientific community and other customers and are disclosed in SPSD and NCSS annual reports. For example, in FY 2019 NRCS published study concerning the best methods of quantifying soil components to help scientists better understand and manage soil resources. Soil and Plant Science research outputs relate to the NRCS Strategic Plan Goal, "High Quality Productive Soils". Outcomes from these outputs directly and indirectly relate to the efficiency and quality of the survey and its use for natural resource conservation activities.

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

Fiscal Year	Technical and Scientific Publications
2015	10
2016	24
2017	14
2018	15
2019	11

Table 32: Five Year Summary of Technical and Scientific Publications

SECTION 4: REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Condition of Heritage Assets and Stewardship Lands

Heritage Assets

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

Stewardship Land

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

The following chart depicts the condition status of NRCS stewardship land easements for the year ended September 30, 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.

Condition	Description	Easements Meeting the Condition	Percentage
Green	Easements are being 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 actions	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 33: Stewardship Easements Condition Status

Deferred Maintenance and Repairs

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

The NRCS portfolio of real property assets includes 29 sites with owned land or buildings. There are 24 PMCs, which are research farms consisting of an office building, greenhouses, service buildings, and warehouse and storages facilities. Other features of PMCs typically include equipment shelters, irrigation water wells, pumps or distribution systems, paved or gravel surfaces, and fuel storage and pumps. Five additional sites include one educational facility, one small NRCS field office, one storage facility, and two unmanned relay stations for snow survey and climate data. The educational facility in Riverside, CA, used by both NRCS and another entity, is scheduled to be sold to the other entity in FY 2020. NRCS will continue to report deferred maintenance for the facility until the sale is completed.

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 consolidated financial statements.

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

Deferred Maintenance Policies

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

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

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

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

Estimated Deferred Maintenance

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

Asset Class	Overall Condition	Cost to Return to Acceptable Condition (dollars)		Change in Cost from Beginning to Ending Balance (dollars)
		Beginning Balance (October 1, 2018)	Ending Balance (September 30, 2019)	
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	0
Other Structures and Features	critical-good	140,631	136,733	(3,898)
Total		$1,748,643	$1,729,995	($18,648)

Table 34: Deferred Maintenance, Totals By Asset Class

The decrease in cost to return assets to acceptable condition during the period reflects the efforts made by NRCS to address deferred maintenance even as additional assets fell below acceptable condition.

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 deferred maintenance includes all assets that are rated as 1 – Failed Unusable, and 2 – Still Usable which have reached the end of their useful life.

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

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

Condition Index	Condition Rating	Number of NRCS Assets
Greater than 95.00	Good	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 35: Condition, Definition, and Characterization of Assets

NRCS manages its buildings in compliance with regulations and guidance from GSA, USDA, and Executive Orders. Buildings shall also comply with applicable codes such as the National Life Safety Code, Occupational Safety and Health Administration rules, and the Architectural Barriers Act Accessibility Standard, and other regulatory and compliance requirements as determined by condition surveys. NRCS applies these regulations and requirements consistently to all major classes of PP&E. Guidelines used may vary from the norm based on the mission of each facility and use of each asset. NRCS began to make significant investments in FY 2015 to address the backlog of deferred maintenance. This has continued into FY 2019. NRCS has completed many of these projects to address deferred maintenance issues, as evidenced by the overall decrease in the deferred maintenance estimate. Projects that are still in the process of being completed will affect NRCS's deferred maintenance estimate in FY 2020.

National Resources Conservation Service

Combined Statement of Budgetary Resources by Major Budget Account

For the Year Ended September 30, 2019
(in millions)

Budgetary Resources:	Farm Bill	Conservation Operations	Watershed & Flood Prevention	Watershed Rehabilitation	Other	Total
Unobligated balance from prior year budget authority, net (Note 17)	$4,399	$277	$852	$87	$8	$5,623
Appropriations (discretionary and mandatory)	3,961	824	635	10	4	5,434
Spending authority from offsetting collections (discretionary and mandatory)	18	19	(3)	5	0	39
Total budgetary resources (Note 17)	$8,378	$1,120	$1,484	$102	$12	$11,096
Status of Budgetary Resources						
New Obligations and Upward Adjustments	$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
Unapportioned, unexpired accounts	7	5	26	2	0	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	0	1	0	2,684
Total Unobligated balance, end of year	4,557	247	1,061	70	7	5,942
Total budgetary resources (Note 17)	$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	0	0	0	0	11	11
Agency Outlays, net (discretionary and mandatory)	3,085	739	157	33	14	4,028

SECTION 5: OTHER INFORMATION (Unaudited)

Management Challenges

In Fiscal Year 2019 the Reports Consolidation Act of 2000 required the USDA Office of Inspector General (OIG) to report annually on the most serious management challenges faced by USDA and its agencies. The following management challenges were identified and related to NRCS in the FY 2018 Management Challenges Report:

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

OIG wrote that NRCS needs to make further improvements to its overall financial management. OIG has an open recommendation that NRCS provide additional oversight to ensure that financial reporting controls over unliquidated obligations are strengthened and maintained.

Summary of Financial Statement Audit and Management Assurances

Summary of Existing Material Weaknesses

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

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	0	1			1
TOTAL MATERIAL WEAKNESS	**2**	**1**			**3**

Table 36: 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	Ending Balance
Improved Entity Level Controls are Needed	0	1			1
TOTAL MATERIAL WEAKNESS	**0**	**1**			**1**

Table 37: 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 38: 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, 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 2019 PAR or AFR may be found at https://paymentaccuracy.gov/.

Payment Reporting

NRCS's Farm Security and Rural Investment Act Program (FSRIP) payments include conservation related financial and technical assistance to landowners, as well as payroll expenses to NRCS employees. All payments related to this program are considered high risk and are collectively referred to as Farm Bill payments. NRCS's improper payment rate for Farm Bill payments was 1.34 percent. NRCS has improved its payment integrity levels above the statutory reporting threshold for three consecutive years and has received concurrence from the Office of the Inspector General (OIG) to request relief from reporting requirements from OMB.

FY 2019				
Program	**Total Outlays**	**Proper**	**Improper**	**% Improper**
Farm Security and Rural Investment Act Program (FSRIP) – Farm Bill	$2,749.55	$2,712.60	$36.95	1.34%

Table 39: Improper Payments ($ Millions)

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

FY 2019			
Program	**Overpayments**	**Underpayments**	**% Improper**
Farm Security and Rural Investment Act Program (FSRIP) – Farm Bill	$36.95	$0	1.34%

Table 40: Improper Payments by Type ($ Millions)

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

FY 2019			
Program	**Federal Government**	**Recipients of Federal Money**	**IP%**
Farm Security and Rural Investment Act Program (FSRIP) - Farm Bill	$36.95	$0	1.34%

Table 41: Improper Payments by Distributor ($ Millions)

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

Root Causes of Improper Payments		Overpayment (%)	Overpayment ($ Millions)
Failure to Verify: Other Eligibility Data	Program eligibility was not verified	0.76%	$21.07
Administrative or Process Error Made by Federal Agency	Documentation was not available to confirm the contract and/or payment was authorized in accordance with NRCS policy and procedures.	0.58%	$15.88
Total		**1.34%**	**$36.95**

Table 42: Root Causes of Improper Payments

Future Outlays and Reduction Targets

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

Future Improper Payment Estimates (in millions)	FY 2020		
Program	**Outlays**	**IP%**	**IP$**
Farm Security and Rural Investment Act Program (FSRIP) – Farm Bill	$3,438	1.33%	$45.72

Table 43: Future Outlays and Improper Payment Estimates for NRCS's High Risk Programs

Recapture of Improper Payment Reporting

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

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

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

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

Improper Payment Amount Identified Current Year	Improper Payment Amount Recovered Current Year
$3,397,602	$1,968,800

Table 44: Improper Payments and Recoveries from July 1, 2018 to June 30, 2019 (in dollars)

Disposition of Funds Recaptured Through Recapture Audit (in dollars)									
Program or Activity	Amount Recovered	Type of Payment	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury	Other (Funds have not been distributed)
Supplier Credit Recovery Audit Program	$3,244	Contracts	$0	$0	$0	$0	$0	$0	$3,244
Overpayments Recaptured Outside of Payment Recapture Audits	$1,968,800	Various	$0	$0	$0	$1,968,800	$0	$0	$0

Table 45: Disposition of Funds Through Recapture Audit

Agency Improvement of Payment Accuracy with the Do Not Pay Initiative

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

Though NRCS utilizes the DNP portal on a post-payment basis, pre-award checks for contracts and grants are still performed directly through the System for Award Management Registration rather than through the DNP portal. The primary reason for this is NRCS's extensive use of system interfaces in our business processes. In FY 2019, NRCS did not identify any improper payments via the DNP portal.

Sampling and Estimation

NRCS designed and selected quarterly statistical payment samples to estimate the percentage of improper payment dollars. The sampling methodology was developed in accordance with the Improper Payments Elimination and Reduction Improvement Act (IPERIA) of 2012, Improper Payments Elimination and Recovery Act (IPERA) of 2010, the Improper Payments Information Act (IPIA) of 2002, and the sampling guidance provided in the Office of Management and Budget (OMB) Circular A-123, Appendix C as revised by OMB Memorandum M-18-20. 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 quarterly sample testing, NRCS is able to obtain quarterly results in a timely manner providing the ability to identify issues and implement corrective actions to reduce improper payments on an ongoing basis.

In FY 2019, NRCS statistically sampled and tested 1,170 Farm Bill transactions based on FY 2018 outlays of $2,749,550,495. Improper payments totaling $676,064 were identified and extrapolated to the entire Farm Bill population, resulting in an estimated $36,948,523 of improper payments.

Testing criteria was applied to verify the following:

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

Other Information (Unaudited)

Fraud Reduction Report

NRCS is committed to reducing fraud. NRCS continued its previously established fraud reduction efforts in FY 2019. NRCS's fraud reduction efforts include the following:

Risk Assessment

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

To comply with the Fraud Reduction and Data Analytics Act of 2015, fraud risk assessments were conducting on government cards, grants and agreements, contracts and human resources payroll processes to identify potential fraud risk and vulnerabilities to the agency. In addition, testing was conducted on government cards.

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

In addition, Farm Production and Conservation (FPAC) Business Center is in the process of developing an anti-fraud program to help prevent and detect fraud within the agency processes.

Reduce the Footprint

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

The slight increase in Office and Warehouse square footage reflects a decrease in space leased from the private sector, offset by a large increase in GSA assigned footage. The decrease in space leased from the private sector resulted in a large decrease in operations and maintenance costs for the year ended September 30, 2019.

	FY 2015 Baseline	FY 2019	Change (2015-2019)
Office and Warehouse Square Footage	3,451,289	3,562,980	111,691

Table 46: Reduce the Footprint Baseline Comparison

	FY 2015 Baseline (in dollars)	FY 2019 (in dollars)	Change (2015-2019)
Operation and Maintenance Costs	$35,403,163	$32,377,832	$(3,025,331)

Table 47: Operations and Maintenance Costs - Owned and Direct Lease Buildings

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