USDA United States Department of Agriculture

Natural Resources Conservation Service's Balance Sheet for Fiscal Year 2017

Audit Report 10401-0009-11

November 2017

OFFICE OF INSPECTOR GENERAL

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

DATE: November 13, 2017

AUDIT NUMBER: 10401-0009-11

TO: Leonard Jordan
Acting Chief
Natural Resources Conservation Service

ATTN: Jeffrey Machelski
Chief Financial Officer

Leon Brooks
Director, Compliance Division
Strategic Planning and Accountability

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Natural Resources Conservation Service's Balance Sheet for Fiscal Year 2017

This report presents the results of the audit of Natural Resources Conservation Service's (NRCS) balance sheet as of September 30, 2017. The report contains an unmodified opinion on the balance sheet, as well as an assessment of NRCS' internal controls over financial reporting and compliance with laws and regulations.

KPMG LLP, an independent certified public accounting firm, conducted the audit. In connection with the contract, we reviewed KPMG LLP's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit, in accordance with government auditing standards (issued by the Comptroller General of the United States), was not intended to enable us to express, and we do not express, an opinion on NRCS' balance sheet; internal control; whether NRCS' financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996 (FFMIA); or conclusions on compliance with laws and regulations. KPMG LLP is responsible for the attached auditor's report, dated November 10, 2017, 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 17-03, *Audit Requirements for Federal Financial Statements*.

It is the opinion of KPMG LLP, that the balance sheet presents fairly, in all material respects, NRCS' financial position as of September 30, 2017, in conformity with accounting principles generally accepted in the United States of America.

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

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

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

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.

United States Department of Agriculture
Natural Resources Conservation Service
Independent Auditors' Report
As of September 30, 2017

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

Independent Auditors' Report

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

Report on the Consolidated Financial Statement

We have audited the accompanying consolidated balance sheet of the U.S. Department of Agriculture, Natural Resources Conservation Service (NRCS) as of September 30, 2017 and the related notes (hereinafter referred to as "consolidated financial statement").

Management's Responsibility for the Consolidated Financial Statement

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

Auditors' Responsibility

Our responsibility is to express an opinion on this consolidated financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statement is free from material misstatement.

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

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

Opinion on the Consolidated Financial Statement

In our opinion, the consolidated financial statement referred to above presents fairly, in all material respects, the financial position of NRCS as of September 30, 2017, in accordance with U.S. generally accepted accounting principles.

Other Matters

Interactive Data

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

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statement. The Message from the Chief on page 1 and the Other Information section on pages 45-71 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statement. Additionally, the accompanying consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and the related notes for the year ended September 30, 2017 presented on pages 45-56 of Other Information, were not audited by us and, accordingly, we do not express an opinion on them. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statement as of September 30, 2017, we considered NRCS' 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 statement, but not for the purpose of expressing an opinion on the effectiveness of NRCS' internal control. Accordingly, we do not express an opinion on the effectiveness of NRCS' internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Exhibit I to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NRCS' consolidated financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 17-03, and which are described in Exhibit II.

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 of FFMIA disclosed instances, described in Exhibit II, in which NRCS' financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

NRCS' Response to Findings

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

Purpose of the Other Reporting Required by Government Auditing Standards

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

KPMG LLP

Washington, DC
November 10, 2017

INTRODUCTION TO EXHIBITS

The Natural Resources Conservation Service continues remediation efforts through its corrective action plan to improve its accounting functions; however, more corrective actions are necessary to fully address the material weaknesses identified.

Exhibit I presents the material weaknesses as of September 30, 2017. Exhibit II of this report presents compliance with laws and regulations as of, and for the year ended September 30, 2017. Exhibit III of this report summarizes the current year status of prior year recommendations. Exhibit IV of this report summarizes the current year status of prior year recommendations for noncompliance with laws and regulations and other matters. The response from NRCS' management is presented in Exhibit V.

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

NRCS lacked fully effective controls to ensure the accuracy of budgetary account balances reported in the financial statements. Specifically, controls were not effective to ensure:

- Timely and accurate recording of obligations and liquidations;
- Proper classification of upward and downward adjustments to prior year unpaid obligations; and
- Maintenance and availability of sufficient documentation to support budgetary activities, such as obligations, de-obligations, modifications, and recoveries of prior year obligations.

When testing undelivered orders (UDOs) balance as of September 30, 2017, we identified 20 exceptions out of a sample of 231 items. These UDO exceptions resulted from a lack of supporting documentation, invalid obligations, and untimely adjustments for work delivered. When testing FY 2017 upward and downward adjustments to prior year unpaid obligations, we identified 40 exceptions out of a sample of 223 items. These upward and downward adjustment exceptions resulted from inadequate documentation, and incorrect use of the standard general ledger accounts based on the nature of the transaction. These internal control and documentation weaknesses may result in misstatements in the financial statements and increase the risk of an Antideficiency Act violation.

When testing completeness of obligations as of September 30, 2017, we noted 8 exceptions out of a sample of 30 items resulting from agreements not being recorded in FY 2017.

The exceptions described above occurred because of a lack of:

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

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

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

Recommendation 1:

We recommend that management of the NRCS:

A. Enhance processes and NRCS feeder systems to improve monitoring of activity in U.S. Standard General Ledger (USSGL) 4871 and 4881 and ensure that invalid upward and downward. adjustments are identified and corrected in a timely manner and that balances are appropriate; and
B. Develop and implement a process that tracks agreement progress to ensure all signed agreements have been recorded in the financial system.

As noted in Recommendations 1B and 1C of Audit Report No. 10401-0003-11 December 2013, we continue to recognize the need for NRCS management to:

- Monitor open obligations (USSGL accounts 4801 and 4802) to ensure that they are recorded in the appropriate period and liquidated timely; and
- Provide adequate training to personnel related to the documentation requirements for support.

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

Improved Accounting and Controls are Needed Over Expenses

NRCS lacked fully implemented controls related to reviews of activity to prevent, timely detect, and correct, errors related to expenses. Specifically, controls were not fully effective to ensure expenses were recorded in the correct fiscal year (i.e., period-end accrual policy was not followed).

When testing FY 2017 expense transactions, we identified 22 exceptions out of a sample of 402 items. We noted that 16 exceptions related to prior year expenses that were not accrued in the prior year.

When testing completeness of the accrued expense balance as of September 30, 2017, we noted 9 exceptions out of a sample of 40 items resulting from current year expenses that were not properly accrued in the current year.

These exceptions occurred because NRCS personnel did not record expense accruals in accordance with NRCS General Manager Title 250, Part 414.11, which requires accruals to be recorded for all expenses incurred but not yet paid using an invoice, performance report, written cost estimate, or confirmation letter.

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

Recommendation 2:

As noted in prior year Recommendations 3A and 3B of Audit Report No. 10401-0005-11, November 2015, we continue to recognize the need for NRCS management to:

- Enhance policy and control procedures for the accuracy and consistent application of period end accruals; and
- Provide adequate training to personnel relating to the accrual policy.

As noted in Recommendations 2A and 3C of Audit Report No. 10401-0003-11, December 2013, we continue to recognize the need for NRCS management to:

- Identify and document transactions that, when required, are recorded in accordance with the guidance found in SFFAS No. 21: Reporting Correction of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources; and
- Enhance procedures to determine if accrued expenses are complete, accurate, and exist at quarter end and are properly supported.

Improved Controls are Needed Over the Monitoring of Service Organizations

NRCS did not maintain effective internal control related to service organizations, including evaluating and documenting the roles of service and sub-service organizations, performing effective reviews of Service Organization Control (SOC) reports, considering and/or implementing complimentary end user controls (CUEC) identified in SOC reports, and assessing and addressing service provider risk in the absence of SOC reports.

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

- **Roles in an internal control system:** Management is directly responsible for all activities of an entity, including the design, implementation, and operating effectiveness of an entity's internal control system.
- **Service Organizations:** Management may engage external parties to perform certain operational processes for the entity, such as accounting and payroll processing, security services, or health care claims processing. For the purpose of the Green Book, these external parties are referred to as service organizations. Management, however, retains responsibility for the performance of processes assigned to service organizations. Therefore, management needs to understand the controls each service organization has designed, has implemented, and operates for the assigned operational process and how the service organization's internal control system impacts the entity's internal control system.
- **Service Organizations (continued):** If the controls performed by the service organization are necessary for the entity to achieve its objectives and address risks related to the assigned operational process, the entity's internal controls may include complementary user entity controls identified by the service organization or its auditors that are necessary to achieve the service organization's control objectives.

Recommendation 3:

We recommend that NRCS management appropriately align knowledgeable resources to evaluate the roles of service organizations, assess controls at those service organizations, and identify and assess the CUECs of those service organizations. Identification and assessment of CUECs should address the following:

- Are there any CUECs identified by the service organization that are relevant to the entity?
- Are the CUECs identified, implemented and operating effectively at NRCS?
- If the service auditor's report cannot be relied on (i.e., if there is an uncovered subservice organization), what compensating controls, if any, are needed?

COMPLIANCE WITH LAWS AND REGULATIONS

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

We determined that obligations incurred, including accrued expenses, undelivered orders and recoveries of prior year unpaid obligations were not properly recorded in accordance with Federal accounting standards, including the USSGL at the transaction level. These issues were addressed through our recommendations in Exhibit I.

Exhibit III

STATUS OF PRIOR YEAR MATERIAL WEAKNESSES

Open Conditions in this Table are Referenced in Exhibit I			
Material Weakness	**Recommendation**	**Status**	**Reference**
Number 1: Improved Accounting and Controls are Needed Over Obligations and Undelivered Orders *(Repeat Condition: 2016, 2015, 2014, and 2013 Material Weakness)*	1. We recommend that management of NRCS: A. Monitor activity in U.S. Standard General Ledger (USSGL) 4871 and 4881 to ensure that invalid upward and downward adjustments are identified and corrected in a timely manner and that balances are appropriate; B. Monitor open obligations (USSGL accounts 4801 and 4802) to ensure that they are recorded in the appropriate period and liquidated timely; and C. Provide adequate training to personnel related to the documentation requirements for support.	 Closed Open Open	USDA OIG Audit Report No. 10401-0003-11 December 2013
Number 2: Improved Accounting and Controls are Needed over Expenses *(Repeat Condition: 2016, 2015, 2014, and 2013 Material Weakness)*	3. We recommend that NRCS Management: A. Enhance policy and control procedures for the accuracy and consistent application of period end accruals; and B. Provide adequate training to personnel relating to the new accrual policy.	 Open Open	USDA OIG Audit Report No. 10401-0005-11 December 2015
	2. We recommend that NRCS Management: A. Identify and document transactions that, when required, are recorded in accordance with the guidance found in SFFAS No. 21: Reporting Correction of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources. 3. We recommend that NRCS Management: A. Provide guidance and/or training to employees on policies and procedures to ensure purchase transactions have adequate supporting documentation (e.g., purchase requisitions, purchase orders, invoices, etc.) to determine if they are accurate and exist; and B. Enhance monitoring controls over payment approvals to determine whether appropriate documentation is provided to support the disbursement.	 Open Closed Closed	USDA OIG Audit Report No. 10401-0003-11 December 2013

	C. Enhance procedures to determine if accrued expenses are complete, accurate, and exist at quarter-ends and are properly supported.	Open	

Exhibit IV

STATUS OF PRIOR YEAR NON-COMPLIANCE FINDINGS

USDA OIG Audit Report No. 10401-0007-11 November 2016	
Reported Condition in FY 2016	**Status in FY 2017**
NRCS Does Not Substantially Comply with Federal Financial Management Improvement Act of 1996	Open – comment Repeated in FY 2017

USDA

Exhibit V

November 9, 2017

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

File Code: 250

Dear Mr. Grega:

We have reviewed the KPMG Independent Auditor's Report of the Natural Resources Conservation Service's (NRCS) Fiscal Year (FY) 2017 Financial Statements, and generally agree with its contents. In FY 2017, NRCS focused on laying the foundation to fully remediate the remaining significant deficiencies and move closer to an unmodified audit opinion on all statements.

Key accomplishments in FY 2017 included:

Obligations and Expenses:

- Piloted the EZFedGrants system and began development of an agreement tracking tool;
- Upgraded the Review of Open Obligations Tool to provide the capability to request certification of all open balances;
- Planned for the implementation of a six digit budget year that will be fully operational in FY 2018, which will allow NRCS to clearly identify upward and downward adjustments;
- Continued to refine and improve our review and negation of erroneous upward and downward adjustments;
- Provided guidance to employees on adequate supporting documentation for expense transactions;
- Enhanced monitoring controls over payment approvals;
- Investigated the viability of a corporate accrual strategy for non-ProTracts transactions for implementation in FY 2018; and
- Deployed subject matter expert teams to all KPMG site visits to further identify all issues contributing to financial statement audit findings and develop corrective actions.

In FY 2018 we will continue to build on our successes through our audit remediation efforts, with the ultimate goal of achieving an unmodified audit opinion on all statements.

Sincerely,

Jeffrey S. Machelski
Chief Financial Officer

cc:
USDA Office of Inspector General

Natural Resources Conservation Service
Post Office Box 2890, Washington, D.C. 20013
An Equal Opportunity Provider and Employer

Natural Resources Conservation Service

Fiscal Year 2017

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 for Fiscal Year (FY) 2017.

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 FFMIA.

NRCS has more than 10,000 public servants who proudly work side-by-side with America's farmers, ranchers, and forest landowners. For more than 80 years, we have helped people voluntarily make investments in their operations and communities to improve the quality of air, water, soil, and habitat, keep working lands working, boost rural economies, and increase the competitiveness of American agriculture.

Through one-on-one, personalized service, we work with producers and communities to find and implement the best solutions to meet their unique conservation and business goals. By doing so, we help ensure the health of natural resources and the long-term sustainability of American agriculture. On average, every day of the year, NRCS invests upwards of $8 million into conservation systems that help producers stay profitable and productive.

We continue our mission of helping farmers, ranchers, and forest landowners improve their operations and take care of natural resources at the same time. Together, we are:

Supporting healthy soil. Private landowners across the country are partnering with NRCS to put soil health practices to work and grow profitable farms, vibrant rural economies, and healthy food and fiber to fuel our nation. As the world's population grows and demands for food rise, keeping our soil healthy and productive is of paramount importance. By farming using soil health principles and systems that include no-till, cover cropping, and diverse rotations, more and more producers are increasing their soil's organic matter, which reduces the need for expensive inputs and improves microbial activity — all while harvesting better profits and often better yields.

Supporting healthy ecosystems. Agriculture and wildlife both thrive through landscape-scale conservation. Two-thirds of the land in the lower 48 states is privately owned, and these productive working farms, ranches, and forests provide critical ecosystems for wildlife as well as the food and fiber that sustains us all. In recent years, we've seen several species rebound and recover— testament that working lands and wildlife can both flourish through the use of conservation practices.

Supporting clean water. Farmers, ranchers, and forest landowners recognize water as our nation's most precious resource. Every day, new producers are stepping up to work with NRCS to implement systems that conserve water and keep valuable nutrients on the field and out of local waterways. Many producers have joined their friends and neighbors in landscape-scale efforts to minimize the impacts of agriculture and improve water quality throughout watersheds. By improving soil health and adopting a systems approach to conservation across the landscape, these targeted efforts have resulted in an ever-growing list of streams restored on working agricultural land.

Leveraging partnerships for innovation. We are broadening our efforts to support the development of emerging environmental markets for carbon, water quality, wetlands, and biodiversity — markets that can become economic drivers for conservation, while generating new sources of income for rural communities. Through our Conservation Innovation Grants program, we're investing in cutting-edge projects that develop new ways to attract private investment in conserving natural resources; give agricultural producers greater access to greenhouse gas markets; and help farmers and ranchers make their operations more resilient to climatic extremes.

Guiding landowners through conservation planning and implementation. NRCS planners balance natural resource issues with production needs on agricultural lands and find conservation solutions that improve operations while taking of natural resources. We've increased our technical training so our staff can continue to support producers and conserve natural resources. We do the conservation planning on the front end so we can help producers implement those practices and reach their vision for their land.

Our nation's farmers, ranchers, and forest landowners understand that clean water, air, and healthy soil are the raw materials for agricultural production. NRCS will continue to help producers in these efforts, using proven conservation practices and the latest science and research to help secure positive outcomes for agriculture, local communities, and the environment.

Leonard Jordan
Acting Chief
Natural Resources Conservation Service

SECTION 1: MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) serves as a high level overview for the year ended September 30, 2017 of financial and non-financial performance for the Natural Resources Conservation Service (NRCS), an agency of the United States Department of Agriculture (USDA).

NRCS produces an Agency Financial Report (AFR) and an Annual Performance Report (APR). NRCS will include its FY 2017 APR with its Congressional Budget Justification and it will be posted with the FY 2018 President's Budget in 2017, and posted on the USDA public website.

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

To fulfill its mission, NRCS provides technical and financial assistance to landowners. This mission 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, 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.

   NRCS focuses on ensuring that appropriate technology is usable and easily accessible to internal and external customers. For internal customers, the highest priority is the integration of field level tools into a user friendly system that better supports the conservation planning process. For external customers, NRCS works to translate science and technology into tools that are easy to understand and use.

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 Program (see Note 1A of the financial statements for a discussion of major programs).

Organizational Structure

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

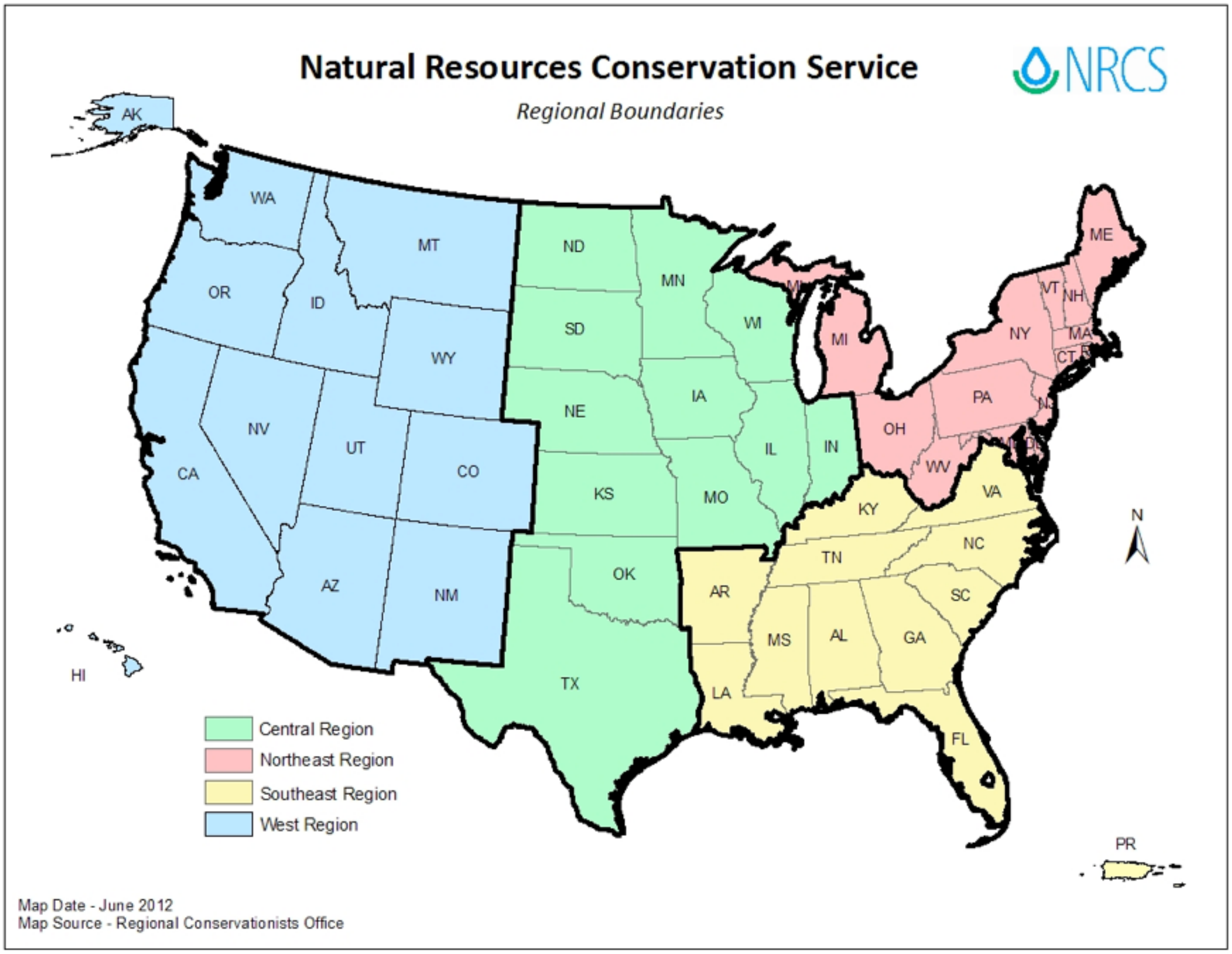

Table 1: NRCS Organizational Map of Regions

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

NRCS
Natural Resources Conservation Service

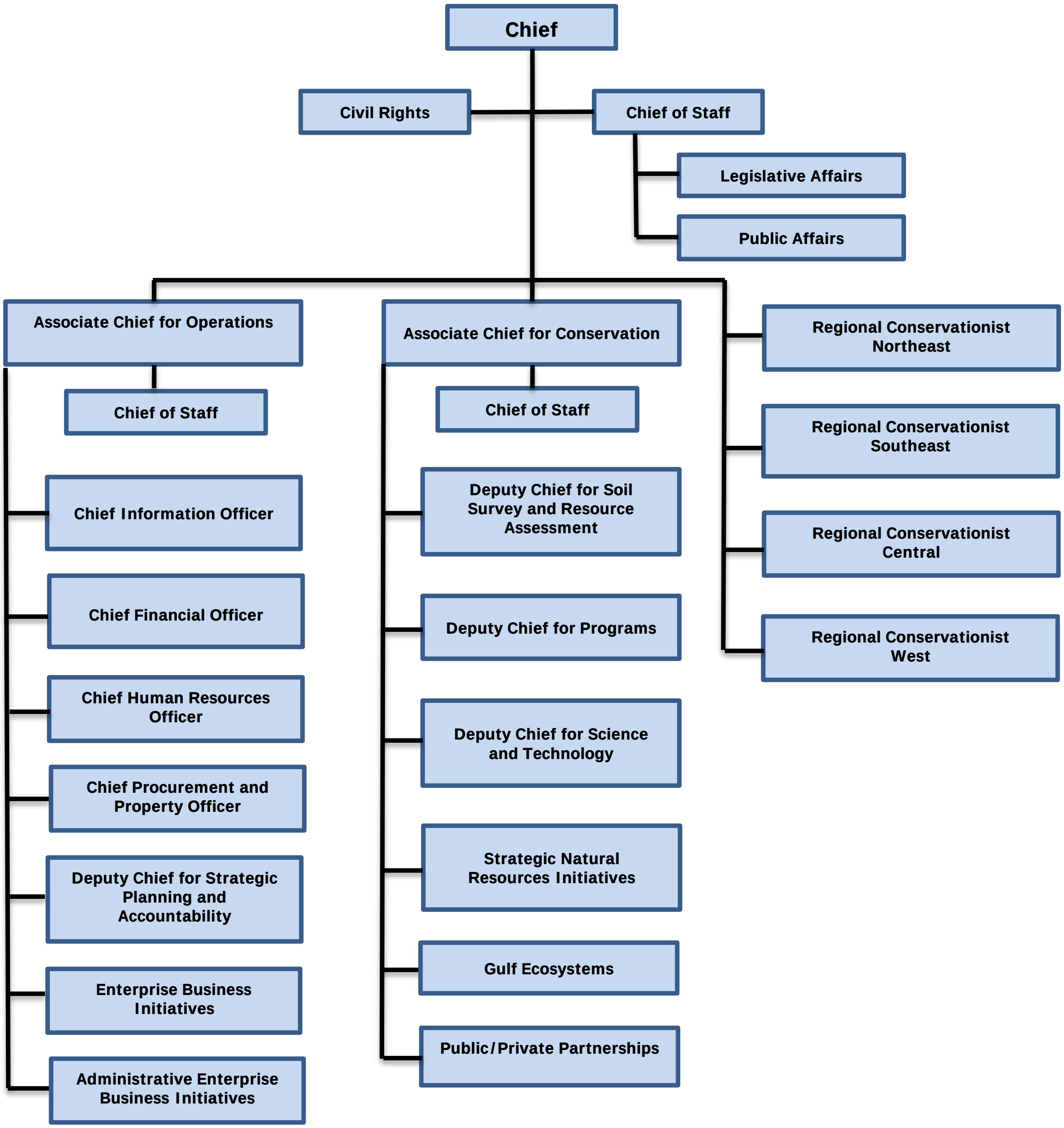

Table 2: NRCS Organizational Chart as of September 30, 2017

Strategic Planning and Accountability Framework

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

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

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

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

Performance Goals, Objectives, and Results

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

Strategic Goals

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

Management Initiatives

1. Increase Organizational Effectiveness and Efficiency
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 2: Ensure our national forests and private working lands are conserved, restored, and made more resilient to climate change, while enhancing our water resources.

Strategic Goals/Management Initiatives	Strategic Objectives	Performance Measures
Goal 1: Deliver high-quality science and technology for 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 Enhance and improve water quality and water quantity Provide habitat 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 land with conservation to improve fish and wildlife habitat quality Land with conservation 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 the 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 people through rehabilitated watershed structures Manage landscape-scale natural resource concerns to create enduring solutions	Number of watershed rehabilitation supplemental plans authorized Number of dam rehabilitations to be completed Land with conservation to improve water quality
Management Initiative 1. Increase organizational effectiveness and efficiency	Strengthen and modernize the delivery of products and services Advance budgeting and financial management capabilities	Contract implementation ratio Conservation quality ratio
Management Initiative 2. Create a climate of inclusion and foster diversity so 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 Contract implementation ratio Conservation quality ratio

Table 3: NRCS Strategic Plan FY 2016-2018

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

NRCS Long-Term Strategic Performance Measure	NRCS Key Performance Measure (KPM)	USDA KPM
Maintain productive working farms and ranches	Cropland with conservation applied to improve soil quality, acres	Yes
	Grazing and forest land with conservation applied to protect and improve the resource base, acres	Yes
Eliminate and reduce impairments to water bodies and help prevent the designation of additional water bodies to the "impaired" list	Land with conservation applied to improve water quality, acres	Yes
Decrease threats to "candidate" and threatened/endangered species	Non-federal land with conservation applied to improve fish and wildlife habitat quality, acres	Yes

Table 4: Key Performance Measures

Performance Goals and Results

The following table displays NRCS' key performance measure accomplishments. The KPMs in the first column are the USDA measures from USDA Strategic Goal 2: Ensure Our National Forests and Private Working Lands are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing our Water Resources.

USDA Objective	Key Performance Measure	Trend[1]				As of September 30, 2017		
		FY 2013	FY 2014	FY 2015	FY 2016	Target	Actual	Result[2]
2.1 Restore and Conserve the Nation's Forests, Farms, Ranches, and Grasslands	2.1.2 Cropland with conservation applied to improve soil quality, Conservation Technical Assistance (CTA) – (millions of acres)	8.4	6.2	6.0	6.0	5.9	5.6	Met
	2.1.3 Cropland with conservation applied to improve soil quality, Environmental Quality Incentive Program – (EQIP), (millions of acres)	4.2	3.1	3.0	2.8	3.0	3.0	Met
	2.1.4 Grazing and forest land with conservation applied to protect and improve the resource base (CTA), (millions of acres)	16.6	13.1	13.1	11.1	13.0	11.6	Unmet
	2.1.5 Grazing and forest land with conservation practices applied to protect and improve the resource base (EQIP), (millions of acres)	17.9	14.8	13.9	12.6	13.5	12.8	Met
	2.1.8 Non-federal land with conservation applied to improve fish and wildlife habitat quality (EQIP), (millions of acres)	2.0	1.4	1.4	1.0	.9	.9	Met
2.2 Protect and Enhance America's Water Resources	2.2.1 Land with conservation applied to improve water quality (CTA), (millions of acres)	22.4	18.2	18.0	15.8	15.8	15.8	Met
	2.2.2 Land with conservation applied to improve water quality (EQIP), (millions of acres)	13.0	12.3	12.7	10.5	13.5	11.3	Unmet

1. **The sources of data for all performance measures are the National Planning and Assessment Database and the Performance Results System.**
2. **Rationale for Met Range: Estimated performance October 1, 2016 through September 30, 2017. Data assessment metrics to meet the target allow for an actual number in the range of 90% - 110% of the target.**

Table 5: Performance Scorecard for FY 2017 – Trends, Targets, and Results

Performance Data Verification and Validation

NRCS regularly collects program performance data through AIMS. AIMS is a set 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.

- **Completeness of Data –** The reported performance measures are based on data reported through September 30, 2017. 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 on an annual basis.

- **Reliability of Data –** The data reported for performance measures was determined within PRS based on information validated and received from the National Planning and Agreements Database (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.

- **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.

- **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. Where more than one program is used to apply practices on the same land unit, each program is credited under the performance measure.

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

Analysis of Entity's Financial Statement and Stewardship Information

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

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

NRCS strives to provide relevant, reliable, and accurate financial information related to agency activities. The following tables reflect the comparative amounts as of September 30, 2017 and September 30, 2016.

Assets

NRCS reported approximately $10.2 billion in assets as of September 30, 2017, representing an increase of eight percent compared with assets reported as of September 30, 2016.

Assets (in millions)	FY 2017	FY 2016	Difference	Difference (Percentage)
Fund Balance with Treasury	$10,072	$9,366	$706	8%
Accounts Receivable	9	21	(12)	(57)%
Total Intragovernmental	**$10,081**	**$9,387**	**$694**	**7%**
Accounts Receivable, Net	3	5	(2)	(40)%
General Property, Plant and Equipment, Net	78	62	16	26%
Advances to Others	41	35	6	17%
Total Assets	**$10,203**	**$9,489**	**$714**	**8%**

Table 6: 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 decrease in intragovernmental and public accounts receivable is the result of improvements made by centralizing and providing more timely billing and collection for services performed for our customers.

General Property, Plant, and Equipment, net (PP&E) consists of NRCS owned land and land rights, buildings, other structures and facilities, equipment, capital leases, and internal use software. General PP&E includes the book value of one heritage asset, the Tucson Plant Materials Center in Tucson, Arizona, which is classified as a multi-use asset used in government operations. PP&E balances increased 26 percent, primarily due to an increase in internal use software development costs.

The increase in advances to others is because of increased activity in the Agricultural Conservation Easement Program. The program is authorized to provide funding for the purchase of agricultural land easements on eligible land with an objective of protecting natural resources and the agricultural nature of the land. The normal requirement is for the entity to purchase the easement and then obtain partnership funding for a share of the cost from NRCS. If this is not possible, NRCS will in certain instances advance funds for the purchase of an easement.

Liabilities

NRCS reported approximately $1.2 billion in liabilities as of September 30, 2017, which is essentially unchanged from the same period in FY 2016. The major liability amounts are provided in the table below.

Liabilities (in millions)	FY 2017	FY 2016	Difference	Difference (Percentage)
Intragovernmental Other Liabilities	$58	$57	$1	2%
Accounts Payable	36	29	7	24%
Federal Employee and Veterans' Benefits	40	40	0	0%
Other	1,094	1,099	(5)	<(1)%
Total Liabilities	**$1,228**	**$1,225**	**$3**	**<1%**

Table 7: Liabilities

The increase in accounts payable is equally attributable to an increase in payables and disbursements in transit attributable to ProTracts invoices related to the Conservation Operations and Environmental Quality Initiatives programs.

Net Position

NRCS reported a net position of approximately $9 billion as of September 30, 2017, representing an increase of nine percent over the same period in FY 2016. 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 2017	FY 2016	Difference	Difference (Percentage)
Unexpended Appropriations	$1,151	$897	$254	28%
Cumulative Results of Operations	7,824	7,367	457	6%
Total Net Position	**$8,975**	**$8,264**	**$711**	**9%**

Table 8: Net Position

The increase in unexpended appropriations of 28 percent from FY 2016 is largely related to an increase in carryover balances and new appropriations for the Watershed and Flood Prevention Operations and Conservation Operations programs compared to last year.

Net Cost of Operations

NRCS's net cost of operations was approximately $3.9 billion as of September 30, 2017, representing an increase of one percent compared to the same period in FY 2016.

Net Cost of Operations (in millions)	FY 2017 (Unaudited)	FY 2016 (Unaudited)	Difference	Difference (Percentage)
Gross Costs	$3,914	$3,879	$35	1%
Less: Total Earned Revenue	64	84	(20)	(24)%
Total Net Cost of Operations	**$3,850**	**$3,795**	**$55**	**1%**

Table 9: Net Cost of Operations

Earned revenues decreased 24 percent over the past twelve months primarily due to a reduction in reimbursable activity for the Small Watershed Operations, Conservation Operations, and Environmental Quality Incentives programs.

Budgetary Resources

Total budgetary resources were approximately $9.4 billion as of September 30, 2017, representing an increase of seven percent from September 30, 2016.

Budgetary Resources (in millions)	FY 2017 (Unaudited)	FY 2016 (Unaudited)	Difference	Difference (Percentage)
Budgetary Resources	$9,437	$8,835	$602	7%

Table 10: Budgetary Resources

Budgetary resources are slightly higher than last year because of the carryover of funding from FY 2016 and increases in appropriations for the Watershed and Flood Prevention and Watershed Rehabilitation programs.

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. This program ensures compliance with the requirements of FMFIA and other laws, and OMB Circular No. A-123, Appendices A through D. 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 and other applicable laws and regulations.

FY 2017 Financial Statement Audit Report Results

In FY 2017, KPMG LLP, an independent auditing firm, was engaged to audit the financial statements of NRCS. The auditors issued an Unmodified Opinion on the Balance Sheet and reviewed the activity related to the other principle statements, (the Statement of Net Cost, Changes in Net Position and Statement of Budgetary Resources) on the basis that NRCS did not provide adequate evidential matter in support of certain transactions and account balances.

Two material weaknesses were identified:

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

Both material weaknesses are repeat conditions from last year's audit.

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

Summary of Audit Recommendations

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

Deficiency	Weakness Category	Status	Target Completion Date
Undelivered Orders	Material Weakness	Repeat Condition	9/30/2018
Expenses	Material Weakness	Repeat Condition	9/30/2018
Non-Compliance with the Federal Financial Management Improvement Act	Non-Compliance with Laws and Regulations	Repeat Condition	9/30/2018

Table 11: Open Audit Recommendations

Management Assurances

NRCS assessed its financial management systems and internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations, in accordance with Departmental guidelines and as required by the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA) as of September 30, 2017. 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. Additionally two material weaknesses were identified by our external auditors. 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 below.

Remediation Activities

NRCS completed the following accomplishments during FY 2017 to address prior year material weaknesses:

- monitored the activity of upward and downward adjustments to ensure balances are appropriate;
- monitored open obligations to ensure they are recorded and liquidated in a timely manner; and
- enhanced policy and control procedures for period end accruals.

NRCS plans further remediation activities in FY 2018, including:

- Reengineer the process for reviewing data files to ensure that invalid upward and downward adjustments are identified and negated in a timely manner;
- improve the transparency of recording and liquidating obligations by utilizing new systems, such as the use of ezFedGrants and ServiceNow; and
- implement a confirmation process, including negative confirmations, for all divisions to ensure direct-entry expense accruals are recorded.

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 2017. This assessment included an evaluation of entity level controls, risk assessments, process narratives and flowcharts, documentation of key controls, an assessment of the design of key controls, tests of operating effectiveness of properly designed controls, a summary of deficiencies, and the development of corrective action plans for control deficiencies. Key controls in the following business processes were identified and reviewed:

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

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

Process	Deficiency Area	Weakness Category (MW/SD/CD) [1]	Year Identified	Original Estimated Completion Date	Revised Completion Date	Actual Completion Date
Section 2:						
Financial Reporting	Obligations/Unliquidated Obligations	MW	2013	9/30/2014	9/30/2018	N/A
Financial Reporting	Expenses/Accrued Expenses	MW	2015	9/30/2016	9/30/2018	N/A
Section 4:						
Personnel Security	ProTracts/Funds Manager – Employee Transfer	CD	2015	03/31/2017	N/A	3/16/2017
Personnel Security	ProTracts/Funds Manager – Employee Termination	CD	2015	03/31/2017	N/A	5/12/2017
Personnel Security	WebTCAS – Employee Termination	CD	2015	03/31/2017	N/A	3/16/2017
Personnel Security	WebTCAS – Employee Transfer	CD	2015	03/31/2017	N/A	3/16/2017
Configuration Management	WebTCAS – Security Impact Analysis	CD	2015	03/31/2017	N/A	11/30/2016
Access Control	WebTCAS – Role Recertification	CD	2016	9/01/2017	N/A	11/30/2017
1. Weakness Categories: MW = Material Weakness; SD = Significant Deficiency, CD = Control Deficiency						

Table 12: Deficiency and Corrective Action Plan Status

Federal Financial Management Improvement Act (FFMIA) of 1996

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

During fiscal year 2017, NRCS evaluated its financial management systems to assess compliance with FFMIA. In assessing FFMIA compliance, NRCS considered its auditor's opinion its financial statements, and progress made in addressing the material weaknesses identified in the FY 2016 Agency Financial Report. NRCS is not compliant with Federal accounting standards and the USSGL at the transaction level as of September 30, 2017. The following items were not properly recorded in accordance to Federal accounting standards and the USSGL:

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

The following table outlines the previous deficiencies noted and the status of the corrective action plans for the year ended September 30, 2017.

Deficiency	Year Originally Identified	Original Estimated Completion Date	Revised Estimated Completion Date
Non-Compliance with Federal Accounting Standards	2008	7/31/2009	9/30/2018
Non-Compliance with USSGL	2008	7/31/2009	9/30/2018

Table 13: 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	9/30/2018

Table 14: Non-Compliance with Laws and Regulations and Status of Corrective Action Plans

Federal Information and Security Management Act (FISMA) of 2002

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 2017, including:

- Assessing 87 information systems to ensure compliance with FISMA requirements;
- Ensuring 23 systems attained Authority To Operate (ATO);
- Mitigating approximately 150 vulnerabilities and closing their associated POAMs;
- Updating and enforcing security standard operating procedures for all NRCS information systems;
- Vulnerability assessment scanning of NRCS systems on a routine and ad hoc basis to ensure compliance and to identify opportunities to reduce risk;
- Assisting project and portfolio management and software development teams with vulnerability remediation measures for cloud, web, and Federal applications/systems; and
- Deploying and managing security tools to identify, protect, detect, respond, and recover NRCS applications/systems.

Inspector General Act Amendments of 1988

The Inspector General Act requires management to complete all final actions on audit recommendations within one year of the date of the Inspector General's final audit report. As of September 30, 2017, there are five audits for which final action has not yet been completed in accordance with the act.

GAO/OIG Active Audits

The summary of GAO/OIG active audits for the year ended September 30, 2017 listed below 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 – 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	1
OIG – Controls Over Conservation Innovation Grants – 10099-0001-23	2/7/2017	1
OIG – EO 13520, Reducing Improper Payments, High-Dollar Overpayments Report Review for Fiscal Year 2015 – 50024-0012-11	1/26/2017	1
OIG – NRCS Balance Sheet for FY 2016 – 10401-0007-11	5/5/2016	11/14/2016
OIG – Controls Over Land Valuations for Conservation Easements – 10601-0001-23	9/20/2013	9/28/2015
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	1
OIG – NRCS Regional Conservation Partnership Program Controls – 10601-0004-31	9/12/2016	1
OIG – USDA's Fiscal Year 2015 Compliance with Improper Payment Requirements – 50024-0009-11	11/24/2015	5/13/2016
OIG – Coordination of USDA Farm Program Compliance – FSA, RMA, and NRCS – 50601-0003-22	10/2/2014	1
OIG – Fiscal Year 2016 Federal Information Security Management Act (FISMA) – 50501-0012-12	3/1/2016	1
OIG – Reviewing the Integrity of USDA's Scientific Research Program – 50601-0006-31	3/23/2016	1
GAO – Reducing Nutrient Pollution – 101099	9/19/2016	1
GAO – USDA's EQIP Could Be Improved to Optimize Benefits – 100307 (GAO-17-225)	9/17/2015	5/15/2017
GAO – Compliance with Improper Payments and Elimination and Recovery Act of 2010 (IPERA) – 100948 (GAO-17-484)	9/19/2016	6/13/2017
GAO – Puget Sound Restoration Efforts – 101196	11/22/2016	1
GAO - Long Island Sound Restoration Efforts – 101350	2/1/2017	1
GAO – San Francisco Bay Watershed Restoration Efforts – 101963	5/5/2017	1
GAO – Assessing Technologies on Water Supplies – 102103	6/27/2017	1
GAO – Offshore Oil Spill Response – 102207	9/6/2017	1
GAO – Federal Actions to Promote Bee Health – 361600 (GAO-16-220)	9/25/2014	3/11/2016
1: Audit in progress and final report release is pending.		

Table 15: GAO/OIG Active Audits Summary

Other Management Information, Initiatives, and Issues

Streamlining Conservation Delivery

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

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

CDSI is organized and staffed in the Office of NRCS's Associate Chief for Operations to ensure an integrated approach rather than a stove-piped Agency wide approach. CDSI staff will implement five major initiatives between now and FY 2021 that will allow field staff to:

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

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

In March 2012, NRCS leadership approved a new strategy to establish program support specialist positions in the states during 2012-2013. This strategy ensures a more consistent organizational approach to performing program administration tasks and removes this non-technical burden from field technical staff. The staff would utilize CDSI applications to ensure consistent streamlined business processes nationwide. In October 2012, NRCS began testing Conservation Desktop (CD) application version 1. NRCS deployed version 1 as a beta release to four states in March 2013. Upon completion of the beta test, additional assessments included quality assurance tests and an independent assessment from a leading information technology research and advisory firm. Based on these tests and assessments, NRCS revised its deployment timeline and path forward.

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

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

NRCS leadership, the USDA Chief Information Officer, and OMB approved the new path forward in September 2013. NRCS completed the design and architecture to support 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 briefings. CDSI continues to brief USDA OCIO monthly, with reporting to OMB through standard Capital Planning and Investment Control channels.

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

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

- the ability to manage preferences, cases, client associations and assistance notes;
- application functionality such as viewing and selecting geospatial data layers like zooming and panning, as well as practice and planning land units;
- the ability to manage documents, tasks, clients, contracts and agreements, and payment assignments; and
- application functionality such as generations, submission, cancellation, viewing historic information, modifications and reporting.

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

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

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

NRCS developed Version 2 of CCG incrementally in calendar year 2017, with multiple releases to include functionality for:

- Support for business entity clients (e.g. limited liability corporations and partnerships);
- A new and improved web interface that supports mobile device access;
- Enhance electronic signature capability; and,
- The ability to perform tasks using power of attorney, including requesting technical and financial assistance, reviewing and signing documents, and accessing plans and contracts within CCG.

Limitations of the Financial Statement

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

Natural Resources Conservation Service

Financial Statement

Balance Sheet

As of September 30, 2017
(in millions)

Assets	
Intragovernmental:	
Fund Balance with Treasury (Note 2)	$10,072
Accounts Receivable (Note 3)	9
Total Intragovernmental	$10,081
Accounts Receivable, Net (Note 3)	3
General Property, Plant, and Equipment, Net (Notes 4 and 9)	78
Advances to Others (Note 6)	41
Total Assets	**$10,203**
Stewardship PP&E (Notes 5 and 14)	
Liabilities:	
Intragovernmental:	
Other (Notes 7 and 8)	$58
Total Intragovernmental	$58
Accounts Payable	36
Federal Employee and Veterans' Benefits (Note 7)	40
Other: (Note 8)	
Accrued Liabilities for Other Services	962
Unfunded Leave (Note 7)	75
Accrued Payroll and Leave	29
Advances from Others	27
Environmental Disposal Liability (Note 7)	1
Total Other:	1,094
Total Liabilities	**$1,228**
Commitments and Contingencies (Note 10)	
Net Position:	
Unexpended Appropriations	$1,151
Cumulative Results of Operations – Funds from Dedicated Collections (Note 11)	4
Cumulative Results of Operations – All Other Funds	7,820
Total Net Position	**$8,975**
Total Liabilities and Net Position	**$10,203**
The accompanying notes are an integral part of this statement.	

Notes to the Financial Statement

Note 1A – Significant Accounting Policies

A. Reporting Entity

The 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 Public Law 103-354, the Department of Agriculture Reorganization Act of 1994 (7 U.S.C. 6962).

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

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

Discretionary Programs

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

Mandatory Programs

The Agricultural Act of 2014 (2014 Farm Bill) provides authority for NRCS to administer mandatory conservation program activities with no-year funding provided through 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 2014 Farm Bill specified that the funds, facilities, and authorities of CCC be used to administer various mandatory conservation programs.

NRCS receives mandatory funding under the 2014 Farm Bill to provide technical and financial assistance for the following programs: Environmental Quality Incentives Program (EQIP), Conservation Stewardship Program (CSP), Agricultural Conservation Easement Program (ACEP), Regional Conservation Partnership Program, Voluntary Public Access and Habitat Incentive Program, Mitigation Banking Program, and Small Watershed Rehabilitation Program. In addition, NRCS receives mandatory funding under Section 524(b) of the Federal Crop Insurance Act for the Agricultural Management Assistance Program. The funding for these programs is received from CCC through quarterly non-expenditure transfers for the estimated obligations to be incurred through the end of each quarter. In addition to the programs mentioned above, NRCS provides Conservation Innovation Grants (CIG), which are funded through EQIP. CIG is a voluntary program that enables NRCS to work with other public and private entities to accelerate technology transfer and adoption of promising technologies and approaches to address some of the Nation's most pressing natural resource concerns. Authorized funding for the FY 2017 Farm Bill programs is $3.6 billion.

B. Basis of Presentation and Accounting

The Balance Sheet for FY 2017 and related footnotes are presented for audit to report the assets, liabilities and net position of NRCS. The Statement of Net Cost, Combined Statement of Changes in Net Position, and the Combined Statement of Budgetary Resources and related notes are presented in the Other Information section as unaudited. The Balance Sheet was prepared from the books and records of NRCS in accordance with GAAP as promulgated by the Federal Accounting Standards Advisory Board (FASAB), and OMB Circular A-136, *Financial Reporting Requirements* with the exception that the Balance Sheet and other statements are not presented comparatively. Per guidance from OMB, NRCS is not subject to the Circular A-136 requirement to prepare comparative financial statements. Under the Government Management Reform Act (GMRA), the Director of OMB has the authority to identify components of Executive Branch departments and agencies that are required to prepare audited financial statements (P.L. 103-356), which includes preparing comparative financial statements. The components of Executive Branch departments and agencies required to prepare audited financial statements are defined in Appendix B of OMB Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*, as amended.

C. Fund Balance with Treasury

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

D. Accounts Receivable, Net

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

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

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

F. Advances to Others

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

G. Liabilities

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

H. Workers Compensation Liability

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

I. Employee Annual, Sick, and Other Leave

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

J. Pension and Other Retirement Benefits

NRCS employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). On January 1, 1987, the FERS, a mixed system of defined benefit and defined contribution plans, went into effect pursuant to P.L. 99-335. FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984 could elect to enroll in FERS and Social Security or remain in CSRS. One of the primary differences between FERS and CSRS is that FERS offers automatic and matching contributions into the Federal Government's Thrift Savings Plan (TSP) for each employee. All employees may invest up to $18,000 in their TSP account in calendar year 2017. Additionally, for FERS employees, NRCS automatically contributes one percent of base pay, and matches employee contributions up to an additional four percent of base pay. Since 1987, the FERS program has been modified twice in terms of how much employees are required to contribute to the defined benefit savings plan. Employees hired after December 31, 1983 and on or before December 31, 2012 contribute .8 percent of base pay for FERS retirement. Pursuant to P.L. 112-96, employees hired (or rehired with less than five years creditable or potentially creditable service under CSRS) on or after January 1, 2013 contribute 3.1 percent of base pay for FERS retirement coverage. Pursuant to the Bipartisan Budget Act of 2013, employees hired (or rehired with less than five years creditable or potentially creditable service under FERS) on or after January 1, 2014 contribute 4.4 percent of base pay for FERS retirement coverage.

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

K. Use of Estimates

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

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 reportable 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. See Note 18 for a description of extended disbursing authority for Farm Bill funds.

Fund Balance With Treasury (in millions)	2017
Fund Balances:	
General Funds	$10,061
Revolving Fund	3
Other Fund Types	7
Trust Fund	1
Total	**$10,072**

Table 16: Fund Balance with Treasury

Status of Fund Balance with Treasury (Unaudited) (in millions)	2017
Unobligated Balance:	
Available	$1,774
Unavailable	2,824
Obligated balance not yet disbursed	5,191
Non-budgetary Fund Balance with Treasury	283
Total	**$10,072**

Table 17: Status of Fund Balance with Treasury

Note 3 – Accounts Receivable, Net

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

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

Accounts Receivable (in millions)	Gross Receivables	Allowance for Uncollectible Accounts	Net Receivables
Intragovernmental	$9	0	$9
With the Public	7	(4)	3
Total	**$16**	**$(4)**	**$12**

Table 18: 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	$89	$66	$23
Internal Use Software	5	83	52	31
Internal Use Software in Development	0	19	0	19
Total Personal Property		**191**	**118**	**73**
Real Property:				
Land and Land Rights		1	0	1
Buildings, Improvements, and Renovations	15-30	13	10	3
Other Structures and Facilities	15-50	4	3	1
Assets under Capital Leases	Varies	2	2	0
Total Real Property		**20**	**15**	**5**
Total		**$211**	**$133**	**$78**

Table 19: General PP&E

Note 5 – Stewardship PP&E

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

Stewardship Land

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

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

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 may occur.

For the purpose of reporting, all easements where NRCS is listed as a grantee of the easement are included in the agency's stewardship land count. Also included are easements that are administered by NRCS on behalf of other USDA agencies. As of September 30, 2017, NRCS had 17,954 stewardship land easements. The monitoring and reconciliation of stewardship land easement balances is ongoing.

Heritage Assets

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

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

Stewardship PP&E (in numbers)	Beginning Balance 2017 (Unaudited)	Additions	Ending Balance 2017
Heritage Assets			
Research Centers	1	0	1
Stewardship Land			
Conservation Easements	17,672	282	17,954

Table 20: 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)	2017
With the Public	41
Total	**$41**

Table 21: 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.

Also included as Liabilities Not Covered by Budgetary Resources are environmental and disposal liabilities. NRCS discloses information related to probable cleanup costs for environmental hazards in accordance with SFFAS No. 5, *Accounting for Property, Plant, and Equipment* and Federal Financial Accounting and Auditing Technical Release No. 2.

NRCS's primary environmental liability stems from the potential cost for treatment and removal of asbestos-containing materials in buildings owned by the agency. Application of asbestos as a fire retardant was a common practice in the building industry through the late 1970s. As these buildings are remodeled, rehabilitated, or torn down, asbestos abatement and removal is necessary to prevent human ingestion of airborne asbestos particles.

USDA established a cost rate for estimating asbestos treatment costs for all USDA agencies. The rate was computed by totaling actual asbestos treatment costs incurred by USDA agencies and dividing the cost by the total square footage of the areas treated. The current rate is $6.49 per square foot. NRCS estimated its asbestos cleanup liability by applying the cost rate to the total square footage of buildings that were built during the era when asbestos use was prevalent. NRCS recognizes an estimated liability for asbestos treatment in the amount of $1 million for the year ended September 30, 2017.

Liabilities Not Covered by Budgetary Resources (in millions)	2017
Intragovernmental:	
FECA	$6
Total Intragovernmental	**$6**
Unfunded leave	75
Federal Employee and Veterans' Benefits	40
Custodial Liabilities	1
Environmental and Disposal liabilities	1
Total liabilities not covered by budgetary resources	$123
Total liabilities covered by budgetary resources	$1,105
Total Liabilities	**$1,228**

Table 22: 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 2017		
	Non-Current	Current	Total
Intragovernmental:			
Accrued Liabilities for Other Services	$0	$44	$44
Employer Contributions and Payroll Taxes	0	9	9
Unfunded FECA Liability	3	3	6
Custodial Liabilities	0	1	1
Liability for Deposit Funds and Clearing Accounts	0	(2)	(2)
Total Intragovernmental	**$3**	**$55**	**$58**
Accrued Liability for Grants and Agreements	0	918	918
Unfunded Leave	0	75	75
Accrued Liabilities for Technical and Other Services	0	32	32
Accrued Funded Payroll and Leave	0	29	29
Advances from Others	0	27	27
Accrued Liabilities for Land and Structures	0	8	8
Environmental and Disposal Liabilities	0	1	1
Liability for Capital Leases	1	0	1
Accrued Liabilities for Miscellaneous Services	0	3	3
Total Other Liabilities	**$4**	**$1,148**	**$1,152**

Table 23: 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. Capital lease assets and future payment information for capital and operating leases are shown in the tables below.

Entity as Lessee: Capital Leases	2017 (in millions)
Summary of Assets Under Capital Lease	
Land and Buildings	$2
Less: Accumulated Amortization	(2)
Total Assets Under Capital Lease	**$0**

Table 24: Capital Leases Summary

Capital Leases – Future Payments Due:	Land and Buildings (in millions)
Year 1 (2018)	$1
Year 2 (2019)	0
Year 3 (2020)	0
Year 4 (2021)	0
Year 5 (2022)	0
After 5 Years	0
Total Future Lease Payments	**$1**
Less: Imputed Interest	0
Less: Executory Costs	0
Net Capital Lease Liability	**$1**
Lease liability covered by budgetary resources	$1

Table 25: Future Payments for Capital Leases

Operating Leases – Future Payments Due:	Land and Buildings (in millions)
Year 1 (2018)	$52
Year 2 (2019)	44
Year 3 (2020)	34
Year 4 (2021)	28
Year 5 (2022)	19
After 5 Years	47
Total Future Lease Payments	**$224**

Table 26: Total Future Payments for Operating Leases

Note 10 – Commitments and Contingencies

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

NRCS's potential liability for claims where a judgment against the agency is reasonably possible is $23 million for the year ended September 30, 2017.

NRCS is not aware of any obligations related to cancelled appropriations for contractual agreements which may require future financial obligations.

Note 11 – Funds from Dedicated Collections

A. Balance Sheet

NRCS recognizes Treasury accounts 12X4368, the Damage Assessment and Restoration Revolving Fund, and 12X8210, Miscellaneous Contributed Funds, as funds from dedicated collections in compliance with SFFAS No. 27, *Identifying and Reporting Earmarked Funds*. Funds from dedicated collections are financed by specifically identified revenues which remain available over time. Financial information for these funds are presented separately in accordance with federal reporting requirements.

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

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

Presentation of the Statement of Net Cost and the Statement of Net Position is presented in Note 11*B* - Funds from Dedicated Collections, in the Other Information Section.

Balance Sheet – Funds from Dedicated Collections as of September 30, 2017
(in millions)

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

Table 27: Funds from Dedicated Collections – Balance Sheet

SECTION 3: REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

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 31,400 volunteers who donated over 291,000 hours of service for the year ended September 30, 2017. Volunteer time is valued at $7 million dollars (using the hourly rate of $24.14 as estimated by the Independent Sector, a national volunteer leadership organization).

Research and Development

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

Plant Materials Centers

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

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

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

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

Research and Development Investment (in millions)	2013	2014	2015	2016	2017	Total Investment
Plant Materials Centers	$9	$9	$11	$12	$15	$56

Table 28: Five Year Summary of Plant Materials Centers Research and Development Costs

Soil Survey Research

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

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

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

Research and Development Investment (in millions)	2013	2014	2015	2016	2017	Total Investment
Soil Survey Research	$2	$2	$2	$1	$1	$8

Table 29: Five Year Summary of Soil Survey Research and Development Costs

Soil survey research outputs are primarily technical documents prepared for the scientific community and other customers, and are disclosed in SSD and NCSS annual reports. For example, in FY 2017 NRCS funded a published study concerning how legacy soil data around the world can be preserved by scanning soil data in paper format into online databases. Soil survey research outputs relate to the NRCS Strategic Plan Goal, “High Quality Productive Soils”. Outcomes from these outputs directly and indirectly relate to the efficiency and quality of the soil survey and its use for natural resource conservation activities.

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

Fiscal Year	Technical and Scientific Publications
2013	13
2014	21
2015	10
2016	24
2017	14

Table 30: Five Year Summary of Technical and Scientific Publications

SECTION 4: REQUIRED SUPPLEMENTARY INFORMATION

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, 2017 (see note 5 for more information about easement assets). The chart is based on data from the National Easements Staging Tool (NEST). NRCS conducts monitoring and enters monitoring data into NEST on a fiscal year basis. Due to weather and other conditions related to the management of easements, much of the annual monitoring is completed and entered into NEST in the 4th quarter of the fiscal year.

Condition	Description	Easements Meeting the Condition	Percentage
Green	Easements are being maintained in accordance with all terms and conditions	13,814	77%
Yellow	Easements with minor administrative issues requiring corrective actions to fully comply with all terms and conditions	2,991	17%
Red	Easements with documented violations that require corrective actions	917	5%
Not Assessed	Easements that did not require monitoring, had an undetermined condition, or were closed in FY 2017	232	1%
Total		**17,954**	**100%**

Table 31: 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 Plant Materials Centers (PMCs), which are research farms consisting of an office building, greenhouses, service buildings, and warehouse and storage facilities. Other features of PMCs typically include equipment shelters, irrigation water wells, pumps or distribution systems, paved or gravel surfaces, and fuel storage and pumps. Four additional sites include one small NRCS field office, one storage facility, and two unmanned relay stations for snow survey and climate data. One other site is used primarily by another entity and there is pending legislative action to transfer the site to that entity. Because of the pending action to transfer this site to another entity, a facility condition assessment for the site has not been completed. The site is excluded from the estimate for deferred maintenance.

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

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

Deferred Maintenance Policies

Deferred maintenance estimates for assets are based on condition surveys performed on a five year maximum revolving schedule. NRCS 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 Property, Plant and Equipment (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 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.

		Cost to Return to Acceptable Condition (dollars)		
Asset Class	Overall Condition	Beginning Balance (October 1, 2016)	Ending Balance (September 30, 2017)	Change in Cost FY 2017
Office Buildings	critical-good	$451,308	$453,366	$2,058
Greenhouses	critical-good	377,617	422,693	45,076
Service Buildings	critical-good	237,548	285,522	47,974
Warehouse/Storage Buildings	critical-good	310,081	354,016	43,935
Other Buildings	critical-good	114,688	137,050	22,362
Irrigation Systems	critical-good	87,537	87,537	0
Other Structures and Features	critical-good	135,625	146,375	10,750
Total		**$1,714,404**	**$1,886,559**	**$172,155**

Table 32: Deferred Maintenance, Totals By Asset Class

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

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

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

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

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

Condition Index	Condition Rating	Number of NRCS Assets
Greater than 95.00	Good	360
Between 90.00 and 94.99	Fair	36
Between 70.00 and 89.99	Poor	31
Less than 70.00	Critical	18
Total		**445**

Table 33: 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 2017. Many of these projects to address deferred maintenance issues are in the process of being completed and will not affect NRCS’s deferred maintenance estimate until FY 2018.

SECTION 5: OTHER INFORMATION

Unaudited Financial Statements

NRCS
Natural Resources Conservation Service

Statement of Net Cost

For the Year Ended September 30, 2017
(in millions)

Gross Program Costs:	Unaudited
Goal 1 – Deliver High-Quality Science and Technology for Voluntary Private Lands Conservation	
Gross Costs (Notes 12, 13, and 14)	$455
Less: Earned Revenue (Notes 12, 13 and 15)	15
Net Program Costs	**440**
Goal 2 – Promote Productive Working Lands and Healthy Waters	
Gross Costs (Notes 12, 13, and 14)	2,900
Less: Earned Revenue (Notes 12, 13, and 15)	20
Net Program Costs	**2,880**
Goal 3 – Protect and Enhance Productive Agricultural Landscapes	
Gross Costs (Notes 12, 13, and 14)	401
Less: Earned Revenue (Notes 12, 13, and 15)	19
Net Program Costs	**382**
Goal 4 – Support Healthy Watersheds and Diverse Land Use Communities	
Gross Costs (Notes 12, 13, and 14)	158
Less: Earned Revenue (Notes 12, 13, and 15)	10
Net Program Costs	148
Total Gross Costs:	**3,914**
Less: Total Earned Revenue	**64**
Net Cost of Operations (Note 20)	**$3,850**
The accompanying notes are an integral part of these statements.	

Natural Resources Conservation Service

Statement of Changes in Net Position

For the Year Ended September 30, 2017

(in millions)

Cumulative Results of Operations	Funds from Dedicated Collections (Note 11)	All Other Funds	Total Unaudited
Beginning Balance	$3	$7,364	$7,367
Budgetary Financing Sources:			
Other Adjustments (rescissions, etc.)	$0	$(269)	$(269)
Appropriations used	0	864	864
Transfers in/out without reimbursement	1	3,613	3,614
Other Financing Sources (Non-Exchange):			
Transfers in/out without reimbursement	$0	$(1)	$(1)
Imputed Financing	0	99	99
Total Financing Sources	1	4,306	4,307
Net Cost of Operations	0	(3,850)	(3,850)
Net Change	1	456	457
Cumulative Results of Operations	$4	$7,820	$7,824
Unexpended Appropriations:			
Beginning Balance	$0	$897	$897
Budgetary Financing Sources:			
Appropriations received	$0	$1,134	$1,134
Other adjustments	0	(16)	(16)
Appropriations used	0	(864)	(864)
Total Budgetary Financing Sources	0	254	254
Total Unexpended Appropriations	$0	$1,151	$1,151
Net Position	**$4**	**$8,971**	**$8,975**
The accompanying notes are an integral part of these statements			

Natural Resources Conservation Service

Combined Statement of Budgetary Resources

For the Year Ended September 30, 2017

(in millions)

Budgetary Resources:	Unaudited
Unobligated balance, brought forward, October 1	$4,612
Recoveries of prior year unpaid obligations	286
Other changes in unobligated balance	(15)
Unobligated balance from prior year budget authority, net (Note 18)	4,883
Appropriations and Transfers In (discretionary and mandatory)	4,520
Spending authority from offsetting collections (discretionary and mandatory)	34
Total budgetary resources (Notes 18 and 20)	$9,437
Status of Budgetary Resources	
New Obligations and Upward Adjustments (Notes 16 and 20)	$4,839
Unobligated Balance, end of year:	
Apportioned, unexpired accounts	1,774
Unapportioned, unexpired accounts	236
Unexpired, unobligated balance, end of year	2,010
Expired, unobligated balance, end of year	2,588
Total Unobligated balance, end of year	$4,598
Total budgetary resources (Notes 18 and 20)	$9,437
Change in obligated balance:	
Unpaid obligations:	
Unpaid obligations, brought forward, October 1	$4,601
New obligations and upward adjustments	4,839
Outlays (gross)	(3,833)
Recoveries of prior year unpaid obligations	(286)
Unpaid obligations, end of year (Note 17)	5,321
Uncollected payments:	
Uncollected payments, Federal sources, brought forward, October 1	(166)
Change In uncollected customer payments from Federal sources	36
Uncollected payments, Federal sources, end of year	(130)
Memorandum (non-add) entries:	
Obligated balance, start of year	$4,435
Obligated balance, end of year	$5,191
Budget Authorities and Outlays, Net (discretionary and mandatory):	
Budget authority, gross	$4,554
Actual offsetting collections	(70)
Change In uncollected customer payments from Federal sources	36
Recoveries of prior year paid obligations	1
Budget authority, net (total)	$4,521
Outlays, gross	$3,833
Actual offsetting collections	(70)
Outlays, net	$3,763
Distributed offsetting receipts	(5)
Agency outlays, net	$3,758
The accompanying notes are an integral part of these statements.	

Unaudited Notes to the Financial Statements For The Year Ended September 30, 2017

Note 1B – Significant Accounting Policies

A. Basis of Presentation and Accounting

The Statement of Net Cost, Statement of Changes in Net Position, and the Combined Statement of Budgetary Resources (hereinafter referred to as the other “financial statements”) were prepared to report the net costs; changes in net position; and budgetary resources of NRCS. The other financial statements have been prepared from the books and records of NRCS in accordance with GAAP as promulgated by the Federal Accounting Standards Advisory Board (FASAB), and OMB Circular A-136, *Financial Reporting Requirements* with the exception that the statements are not presented comparatively.

The other financial statements present both proprietary and budgetary information. The accounting structure of federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned, and expenses are recognized when incurred. Budgetary accounting principles are designed to recognize the obligation of funds when actions occur that require the Government to make a payment in the future. The recognition of budgetary accounting transactions is essential for compliance with legal restraints and controls over the use of federal funds.

B. Revenues and Other Financing Sources

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

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

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

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

C. Imputed Financing

NRCS recognizes the amount of accrued pension and postretirement benefit expenses for current employees as imputed financing costs. The assets and liabilities associated with such benefits are the responsibility of the administering agency, OPM. Any amounts paid from the Treasury Judgment Fund in settlement of claims or court assessments against NRCS are also recognized as imputed financing. Finally, USDA allocates a portion of its headquarters office space, operations, and maintenance costs to each USDA agency. NRCS recognized imputed financing of $99 million for the year ended September 30, 2017 for the Treasury Judgment Fund, accrued pension and postretirement benefit expense, and the USDA headquarters allocation.

D. Pension and Other Retirement Benefits

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

E. Use of Estimates

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

F. 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 11 – Funds from Dedicated Collections

B. Statement of Net Cost and Statement of Net Position

NRCS recognizes Treasury accounts 12X4368, the Damage Assessment and Restoration Revolving Fund, and 12X8210, Miscellaneous Contributed Funds, as funds from dedicated collections in compliance with SFFAS No. 27, *Identifying and Reporting Earmarked Funds*. Funds from dedicated collections are financed by specifically identified revenues which remain available over time. Financial information for these funds are presented separately in accordance with federal reporting requirements.

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

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

There were no reportable revenues or expenses for these funds for the year ended September 30, 2017, and a Statement of Net Cost is not included in this footnote.

Statement of Changes in Net Position – Funds from Dedicated Collections
For the Year Ended September 30, 2017
(in millions)

Cumulative Results of Operations	Damage Assessment and Restoration Revolving Fund	Miscellaneous Contributed Funds	Total Funds From Dedicated Collections (Unaudited)
Beginning Balance	$2	$1	$3
Transfers In/Out Without Reimbursement	1	0	1
Total Financing Sources	1	0	1
Net Revenue from Operations	0	0	0
Net Change	1	0	1
Cumulative Results of Operations	3	1	4
Net Position	**$3**	**$1**	**$4**

Table 34: Funds from Dedicated Collections – Statement of Changes in Net Position

Note 12 – Intragovernmental Costs and Exchange Revenue

NRCS has four strategic goals to accomplish its mission: (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 Communities. Costs and exchange revenue are disclosed as intragovernmental or with the public, based on the related source or customer, respectively. Intragovernmental expenses relate to the source of goods and services purchased by NRCS, and not to the classification of related revenue.

Intragovernmental Costs and Exchange Revenue (in millions)	2017
Deliver High-Quality Science and Technology for Voluntary Private Lands Conservation	
Costs	
Intragovernmental	$338
Public	117
Total Program Costs	**$455**
Earned Revenue	
Intragovernmental	$6
Public	9
Total Program Earned Revenue	**$15**
Promote Productive Working Lands and Healthy Waters	
Costs	
Intragovernmental	$217
Public	2,683
Total Program Costs	**$2,900**
Earned Revenue	
Intragovernmental	$18
Public	2
Total Program Earned Revenue	**$20**
Protect and Enhance Productive Agricultural Landscapes	
Costs	
Intragovernmental	$45
Public	356
Total Program Costs	**$401**
Earned Revenue	
Intragovernmental	$19
Public	0
Total Program Earned Revenue	**$19**
Support Healthy Watersheds and Diverse Land Use Communities	
Costs	
Intragovernmental	$3
Public	155
Total Program Costs	**$158**
Earned Revenue	
Intragovernmental	$1
Public	9
Total Program Earned Revenue	**$10**

Table 35: Intragovernmental Costs and Exchange Revenue

Note 13 – Program Costs by Segment

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

Program Costs by Lines of Business (in millions)	Gross Costs	Earned Revenue	Net Cost
Conservation Implementation	$2,703	$21	$2,682
Conservation Operations	559	10	549
Conservation Planning and Technical Assistance	458	27	431
Natural Resources Inventory	96	3	93
Natural Resources Technology Transfer	88	3	85
Natural Resources Assessment	10	0	10
Totals	**$3,914**	**$64**	**$3,850**

Table 36: Program Costs by Line of Business

Note 14 – Cost of Stewardship PP&E

Costs of administering the program for stewardship land amounted to $184 million for the year ended September 30, 2017. 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 15 – Exchange Revenues

NRCS collects exchange revenue under reimbursable agreements for technical services provided to federal and non-federal entities at the full cost of the services to be provided. Federal policy requires that non-federal customers be billed in advance for the entire amount of the agreement. NRCS has no specific statutory authority to use anticipated budgetary resources for non-federal entities. Bills are issued for actual costs in accordance with terms of the underlying agreement. At the end of each quarter, accruals are recorded for the earned, unbilled portion of each agreement. An entry is recorded to estimate an allowance for possible uncollectible amounts from non-federal customers based on the historical aging of receivables.

Note 16 – Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

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

Obligations Incurred (in millions)	Apportionment Category A	Apportionment Category B	Total
Obligations Incurred – Direct	$0	$4,795	$4,795
Obligations Incurred – Reimbursable	0	44	44
Totals	**$0**	**$4,839**	**$4,839**

Table 37: Apportionment Categories of Obligations Incurred

Note 17 – Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders are $4,282 million for the year ended September 30, 2017.

Note 18 – 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 2017 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 except for fiscal year 2008 funds, are not available for new obligations".

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

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

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

The 2014 Farm Bill changed the period of availability for most of the mandatory conservation programs (except the Agriculture Management Assistance program) from one-year to no-year funding. Thus, extended disbursing authority will no longer be needed for these funds in FY 2017 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 19 – Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

The differences between the unaudited FY 2016 SBR and the FY 2016 actual numbers presented in the FY 2018 Budget of the United States Government are summarized in the table below. The President’s Budget with actual numbers for FY 2017 has not yet been published. Upon release of the FY 2019 budget, it will be available at the OMB website. OMB Circular A-136 states that the reconciliation should identify and explain material differences between amounts reported in the SBR and actual amounts reported in the Budget of the United States Government as required by U.S. GAAP.

Budget Reconciliation (in millions)	Budgetary Resources	Obligations Incurred	Net Outlays
Statement of Budgetary Resources (unaudited)	$8,835	$4,223	$3,671
Reconciling Items			
Expired Accounts	(2,545)	(14)	0
Other	2	0	0
Budget of the U.S. Government	**$6,292**	**$4,209**	**$3,671**

Table 38: Explanation of Differences Between SBR and the Budget of the US Government

Note 20 – Reconciliation of the Net Cost of Operations (Proprietary) to Budget

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

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

Natural Resources Conservation Service

Reconciliation of the Net Cost of Operations (Proprietary) to Budget

For the Year Ended September 30, 2017 (in millions)

Reconciliation of the Net Cost of Operations (Proprietary) to Budget	2017
Resources Used to Finance Activities:	
Obligations Incurred	$4,839
Less: Spending authority from offsetting collections and recoveries	320
Less: Distributed Offsetting receipts	5
Net Obligations	4,514
Transfers In/Out Without Reimbursement	(1)
Imputed financing from costs absorbed by others	99
Net other resources used to finance activities	98
Total resources used to finance activities	**$4,612**
Resources Used to Finance Items not Part of the Net Cost of Operations	
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided	$(718)
Resources that Fund Expenses Recognized in Prior Periods	(4)
Budgetary offsetting collections and receipts that do not affect the net cost of operations	
Change in unfilled customer orders	(22)
Resources that finance the acquisition of assets	(26)
Other Resources or Adjustments to Net Obligated Amounts that Do Not Effect the Net Cost of Operations	5
Total resources used to finance items not part of the net cost of operations	(765)
Total resources used to finance the net cost of operations	**$3,847**
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period	
Components Requiring or Generating Resources in Future Periods:	
Increase in Annual Leave Liability	(2)
Other	(1)
Total components of the Net Cost of Operations that will require or generate resources in future periods	(3)
Components not Requiring or Generating Resources:	
Depreciation and Amortization	12
Revaluation of Assets and Liabilities	(9)
Bad Debt Expense	3
Total components of the Net Cost of Operations that will not require or generate resources:	6
Total components of the Net Cost of Operations that will not require or generate resources in the current period	**$3**
Net Cost of Operations	**$3,850**

Table 39: Reconciliation of the Net Cost of Operations (Proprietary) to Budget

National Resources Conservation Service

Combined Statement of Budgetary Resources by Major Budget Account

For the Year Ended September 30, 2017
(in millions)

Budgetary Resources:	Farm Bill	Conservation Operations	Watershed & Flood Prevention	Watershed Rehabilitation	Other	Total
Unobligated balance, brought forward, October 1	$4,015	$219	$349	$25	$4	$4,612
Recoveries of prior year unpaid obligations	248	14	15	9	0	286
Other changes in unobligated balance	1	(13)	0	(3)	0	(15)
Unobligated balance from prior year budget authority, net (Note 18)	4,264	220	364	31	4	4,883
Appropriations and Transfers In (discretionary and mandatory)	3,379	865	253	19	4	4,520
Spending authority from offsetting collections (discretionary and mandatory)	12	10	0	11	1	34
Total budgetary resources (Notes 18 and 20)	$7,655	$1,095	$617	$61	$9	$9,437
Status of Budgetary Resources						
New Obligations and Upward Adjustments (Notes 16 and 20)	$3,684	$878	$239	$34	$4	$4,839
Unobligated Balance, end of year:						
Apportioned, unexpired accounts	1,224	133	387	26	4	1,774
Unapportioned, unexpired accounts	244	0	(9)	0	1	236
Unexpired, unobligated balance, end of year	1,468	133	378	26	5	2,010
Expired, Unobligated Balance, end of year	2,503	84	0	1	0	2,588
Unobligated balance, end of year (total)	3,971	217	378	27	5	$4,598
Total budgetary resources (Notes 18 and 20)	$7,655	$1,095	$617	$61	$9	$9,437
Change in obligated balance:						
Unpaid obligations:						
Unpaid obligations, brought forward, October 1	3,875	287	174	252	13	$4,601
New Obligations and upward adjustments	3,684	878	239	34	4	4,839
Outlays (gross)	(2,883)	(770)	(117)	(61)	(2)	(3,833)
Recoveries of prior year unpaid obligations	(248)	(14)	(15)	(9)	0	(286)
Unpaid obligations, end of year (Note 17)	4,428	381	281	216	15	$5,321
Uncollected payments:						
Uncollected payments, Federal sources, brought forward, October 1	(50)	(40)	(76)	0	0	$(166)
Change in uncollected payments from Federal sources	2	7	27	0	0	36
Uncollected payments, Federal sources, end of year	(48)	(33)	(49)	0	0	$(130)
Memorandum (non-add) entries:						
Obligated balance, start of year	3,825	247	98	252	13	$4,435
Obligated balance, end of year	4,380	348	232	216	15	$5,191
Budget Authorities and Outlays, Net (discretionary and mandatory)						
Budget authority, gross	3,391	875	253	30	5	$4,554
Actual offsetting collections	(15)	(17)	(27)	(11)	0	(70)
Change in uncollected customer payments from Federal sources	2	7	27	0	0	36
Recoveries of prior year obligations	1	0	0	0	0	1
Budget authority, net (total)	3,379	865	253	19	5	$4,521
Outlays, gross	2,883	770	117	61	2	3,833
Actual offsetting collections	(15)	(17)	(27)	(11)	0	(70)
Outlays, net (discretionary and mandatory)	2,868	753	90	50	2	3,763
Distributed offsetting receipts	0	0	0	0	(5)	(5)
Agency Outlays, net (discretionary and mandatory)	2,868	753	90	50	(3)	3,758
The accompanying notes are an integral part of these statements.						

Other Information

Management Challenges

The Reports Consolidation Act of 2000 requires the USDA OIG to identify and report annually on the most serious management challenges the Department faces. The following management challenges were identified and linked to NRCS in the OIG's FY 2017 Management Challenges report:

USDA Needs to Improve Oversight and Accountability for its Programs

Assigned Audit: 50601-0003-22, *Coordination of United States Department of Agriculture (USDA) Farm Program Compliance*

Management Challenge Summary:

Compliance requirements for various Farm Service Agency (FSA), Risk Management Agency (RMA), and Natural Resources Conservation Service (NRCS) programs must be met in order to ensure payments are made in accordance with individual program rules. Participant burden may be reduced when compliance data is shared with other Department of Agriculture (USDA) agencies when assisting with program eligibility determinations and ensuring payments are not made in excess of program limitations.

USDA agencies have implemented a variety of data sharing processes and coordinated efforts for assuring compliance with program requirements. However, USDA needs to take additional steps to improve its agencies' data sharing practices.

USDA agencies have not implemented controls to verify the accuracy of self-certifications to ensure that crop insurance policyholders are in compliance with highly erodible land conservation and wetland conservation requirements.

Corrective Actions Completed During FY 2017:

Recommendation 1:

A Department-level entity (e.g., OCIO) should be assigned responsibility for the Acreage Crop Reporting Streamlining Initiative (ACRSI) oversight and develop policies for coordinating among agencies for the continued development of ACRSI to completion, and the ACRSI charter should be updated to define this role.

Corrective actions:

FSA and NRCS reached agreement of incorporating language into a Memorandum of Understanding (MOU) on July 5, 2017. The MOU is designed to be a broadly described multiyear agreement between the two agencies supporting data share without describing specific datasets. FSA, Commodity Credit Corporation (CCC), and NRCS mutually agree to cooperate at all levels to ensure consistent implementation of conservation program payment eligibility and limitation requirements. Data-specific requests will be appended to the MOU by an interagency data sharing work group. The agencies will meet bi-annually to exchange information about the status of information sharing under this MOU; provide information about other data collection activities of the respective agencies, and identify potential additional data sharing activities that would be beneficial to streamline application processes for producers. Additionally, NRCS and FSA are now part of the Farm Production and Conservation mission area. The agencies have complementary missions and often provide service and programs to the same agricultural producers. The FSA-NRCS Data Sharing Agreement has been signed and implemented.

Planned Corrective Actions to be Completed During FY 2018:

Recommendation 1:

A Department-level entity (e.g., OCIO) should be assigned responsibilities for the ACRSI oversight and develop policies for coordinating among agencies for the continued development of ACRSI to completion, and the ACRSI charter should be updated to define this role.

Planned Corrective Actions:

NRCS and FSA's new data sharing agreement is in place, in addition to the MOU among the agencies. This agreement includes provisions for allowing read-only access to both agencies' data systems. Provisions for each individual data system are included as an appendix to the agreement. The agencies' data teams will meet quarterly to refine, improve, and add to the agreement as needed. At this time, FSA will allow read-only access to prior year data only, particularly in regard to information in the Crop Acreage Reporting System that is deemed as particularly sensitive information relative to potential effects on markets. Further data share updates will be provided quarterly. The estimated completion date for the corrective action is 11/30/2017.

NRCS has revised Programs Manual, part 507, subpart K and part 508 to incorporate communication with FSA about inconsistencies that arise with respect to participant-reported information throughout contract administration. The estimated completion date for the corrective action is 11/30/2017.

NRCS to clarify Conservation Stewardship Program policy manual for field employee use to determine and document cropping history. NRCS and FSA have agreed to a data sharing arrangement where FSA cropping history reports may be more readily available. After NRCS has read-only access to FSA cropping history reports, NRCS will consider prioritizing such documentation. The estimated completion date for the corrective action is 11/30/2017.

USDA Needs to Strengthen Program Performance and Performance Measures

OCFO Assigned Audit: 10601-0001-32, *Natural Resources Conservation Service (NRCS) Controls over the Conservation Stewardship Program (CSP)*.

Management Challenge Summary:

The Office of Inspector General (OIG) found that NRCS did not have adequate controls to detect erroneous participant-reported CSP information affecting eligibility and payment amounts. Specifically, participants inconsistently delineated their agricultural operations—they excluded land under their control, enrolled lands they did not control, and/or enrolled agricultural operations that were not substantially separate from other operations—and were able to manipulate payment shares to avoid payment limitation.

OIG recommended ongoing, specific, and concerted collaboration between NRCS and other USDA agencies on a regular basis to identify common information used by agencies in the administration of their programs. These agencies must continue to improve oversight over their data so they can accurately measure performance and deliver successful programs. OIG also found that NRCS had inadequate controls over contracting for and documenting implementation of conservation enhancements.

NRCS Corrective Action Completed During FY 2017:

NRCS reached management decision on recommendations 6, 10-15, 19, 20, and 23-25 when the final report was issued at the close of FY 2016 and in FY 2017. NRCS has twice sent updated responses for recommendations 1-5, 7-10, 16-18, 21, 22, and 26 in FY 2017 with recommendation 10 reaching management decision. Recommendations 10, 12, 19, 23 and 24 reached OCFO final action in FY 2017. Recommendation 11 response was submitted to OCFO for final action review in FY 2017.

FY 2018 Planned Corrective Actions on Open Recommendations with Management Decision:

Recommendation 6:

NRCS will complete state level review of the six audit-applicable contracts to determine whether agricultural operations were delineated correctly based upon NRCS policies and procedures. NRCS actions to modify or terminate contracts, and deobligate funds, as appropriate are ongoing. The estimated completion for this recommendation is 11/30/2017.

Recommendation 13:

NRCS will provide OCFO with the results of NRCS's investigation into each of the 29 contracts listed in the report, to include determinations if participants engaged in any misrepresentation, scheme, or device to avoid payment limitation. The estimated completion for this recommendation is 11/30/2017.

Recommendation 14:

NRCS will (1) identify all participants managing the 29 audit applicable contracts who engaged in misrepresentation, scheme, or device, (2) identify all CSP contracts in which those participants have interests, and (3) terminate participant interest in CSP contracts and deobligate funds, as appropriate. In addition, NRCS will determine (in each case) whether there is cause for consideration of suspension and debarment for applicable participants. The estimated completion for this recommendation is 11/30/2017.

Recommendation 15:

The responsible NRCS State Conservationist will determine whether 29 audit applicable participants engaged in any misrepresentation, scheme, or device to avoid payment limitation relating to the recommendation 13 review. Upon completion of review, operational adjustments in the form of corrective actions will be taken per NRCS policy. Documentation for closure will be submitted for OCFO consideration as appropriate. The estimated completion for this recommendation is 11/30/2017.

Recommendation 20:

NRCS will review 15 audit applicable contracts identified as containing incompatible enhancements that occupy or may occupy the same space. NRCS will make operational adjustment modifications to or cancellation of applicable contracts, and deobligate funds, as appropriate. The estimated completion for this recommendation is 11/30/2017.

Recommendation 25:

NRCS is reviewing the 21 audit applicable contracts where the participant was unable to provide job sheet documentation that demonstrated effective and timely implementation of enhancements. All operational adjustments, including modifications, cancellation, termination, and/or deobligation of funds will be executed to NRCS policy. The estimated completion for this recommendation is 2/28/2018.

NRCS proposed corrective actions for recommendations 1-5, 7-9, 16-18, 21, 22 and 26 that have not reached management decision were submitted to OIG on 8/3/2017.

USDA Needs to Strengthen Controls over Improper Payments and Financial Management

OIG noted the progress USDA is making toward being fully compliant with Federal requirements for improper payments. OIG wrote as an example that NRCS reduced its improper payment rate from 22.04 percent in FY 2014 to 2.38 percent in FY 2016 and became fully compliant with the Improper Payments Elimination and Recovery Act of 2010.

OIG also noted that it could not express an opinion concerning the Department's overall financial statements because the Commodity Credit Corporation (CCC) and NRCS were unable to support certain transactions and balances. However, OIG and its contract auditor determined that NRCS's balance sheet presented fairly, in all material respects, NRCS's financial position as of September 30, 2016. FY 2016 was the first year that NRCS obtained an audit opinion on its balance sheet.

During the review of USDA's consolidated balance sheet for FY 2016, OIG identified weaknesses in USDA's overall financial management, the security program for IT, and controls over financial reporting. OIG wrote that the Department's material weakness in financial management reflects the ongoing material weaknesses found in the annual financial reviews of CCC and NRCS noted certain matters involving internal controls. NRCS has deficiencies in internal controls in accounting for obligations and expenses, which are considered material weaknesses. However, OIG noted that NRCS has made significant gains toward resolving financial management problems that have been reported by OIG for the previous 5 fiscal years, but some corrective actions remain in process (Audit Report 10401-0007-11, *Natural Resources Conservation Service's Balance Sheet for Fiscal Year 2016,* Nov. 2016).

Summary of Financial Statement Audit and Management Assurances

Summary of Existing Material Weaknesses

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

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

Table 40: Summary of Financial Statement Audit

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
1. System Requirements	No lack of substational compliance noted	No lack of substational 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 41: FFMIA Compliance

Payment Integrity

Background

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

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

Agencies must report information on payment integrity, disclosing payments that were processed correctly and those payments that were improper. Since the Improper Payments Information Act (IPIA) of 2002, OMB has worked with agencies to increase the number of Federal payments to the right person, amount, and date. The IPIA, as amended by the Improper Payments Elimination and Recovery Act of 2010, and the Improper Payments Elimination and Recovery Improvement Act of 2012, requires agencies to annually report information on improper payments to the President and Congress through their annual Performance and Accountability Report (PAR) or Annual Financial Report (AFR). In addition, more detailed information on improper payments and all of the information previously reported in the PAR or AFR that is not included in the FY 2017 PAR or AFR may be found at https://paymentaccuracy.gov/.

Payment Reporting

NRCS's Farm Security and Rural Investment Act Program payments include conservation related financial and technical assistance to landowners, as well as payroll expenses to NRCS employees. All payments related to this program are considered high risk and are collectively referred to as Farm Bill payments. NRCS's improper payment rate for Farm Bill payments was 1.12 percent. NRCS also performed improper payment testing on NRCS's Disaster Relief payments related to Hurricane Sandy's Emergency Watershed Protection Program (Hurricane Sandy). No improper payments for that program were noted.

FY 2017				
Program	Total Outlays	Proper	Improper	% Improper
Farm Bill	$2,304.27	$2,278.44	$25.83	1.12%
Hurricane Sandy	$3.47	$3.47	$0	0%

Table 42: 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 2017			
Program	Overpayments	Underpayments	% Improper
Farm Bill	$25.83	$0	1.12%
Hurricane Sandy	$0	$0	0%

Table 43: 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 2017			
Program	Federal Government	Recipients of Federal Money	IP%
Farm Bill	$25.83	$0	1.12%
Hurricane Sandy	$0	$0	0%

Table 44: 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)
Inability to Authenticate Eligibility	Recipient did not have control of the land associated with the payment and/or control of land could not be verified.	51%	$13.27
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.	49%	$12.56
Total		100%	$25.83

Table 45: Root Causes of Improper Payments

Corrective Actions

The following chart summarizes the corrective actions for the Farm Bill improper payments, linked to the root causes.

Corrective Actions		Estimated Completion Date
Inability to Authenticate Eligibility	NRCS will evaluate its processes for ensuring that participants maintain control of land for the life of the contract and/or notify an NRCS field office within a contractually specified amount of time if control of land changes. NRCS will communicate certification reminders to participants, assess the feasibility of increasing field audits, and evaluate longer term enhancements to processes, policies, and systems.	March 31, 2018
Administrative or Process Error Made By Federal Agency	NRCS will issue communication to the states to reaffirm the requirements of pre-obligation and pre-payment reviews, including using existing review checklists to ensure completeness of documentation. NRCS will also evaluate its records retention policies, processes, and systems to mitigate improper payments due to incomplete or un-retrievable payment related documentation. Should changes to policies, processes, and/or systems be required, NRCS will communicate to relevant stakeholders through national bulletins, training, and/or updated policy manuals.	March 31, 2018

Table 46: Corrective Actions

Future Outlays and Reduction Targets

The following chart depicts future year outlays and reduction targets for the next fiscal year. In FY 2017, NRCS received OMB's approval to remove Hurricane Sandy from the high risk list for improper payment reporting. Therefore, the Hurricane Sandy program will be considered low risk for FY 2018 reporting.

Future Improper Payment Estimates (in millions)	FY 2018		
Program	Outlays	IP%	IP$
Farm Bill	$2,638	1.11%	$29

Table 47: 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
$3,810,000	$780,000

Table 48: Improper Payments and Recoveries from July 1, 2016 to June 30, 2017

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	$769	Contracts	$0	$0	$0	$0	$0	$0	$769
Overpayments Recaptured Outside of Payment Recapture Audits	$780,000	Various	$0	$0	$0	$780,000	$0	$0	$0

Table 49: Disposition of Funds Through Recapture Audit

Other Information

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.

Barriers

NRCS is not aware of any statutory and regulatory barriers that will inhibit its payment processes.

Accountability

NRCS managers promote accountability for reducing improper payments by establishing an effective internal control program, educating program staff to maintain the effectiveness of controls, and incorporating improper payment reduction into individual management performance goals. NRCS deeply believes in its mission of conservation and has focused its corrective actions on program integrity so that eligible recipients receive their entitled payments. NRCS performs improper payment testing on a quarterly basis to enable prompt identification and notification of control weaknesses, and promotes a year-round culture of continuous improvement. This culture of compliance provides NRCS personnel with the tools to continue to reduce and recapture any improper payments.

Agency Information Systems and Other Infrastructure

NRCS has the internal controls, human capital, and information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted. NRCS has a robust internal control program that is continuously monitored, tested, and revised as statutes and program guidance are updated. NRCS has a dedicated Quality Assurance Division within the Office of the Chief Financial Officer to monitor that payments are made to eligible recipients in accordance with contractual requirements and mission goals. NRCS also leverages information system enhancements to review eligibility criteria from multiple data sources, and is implementing the capability to collect real-time participant information during on-site reviews.

Other Information

Sampling and Estimation

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

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

In FY 2017, NRCS statistically sampled and tested 667 Farm Bill transactions based on FY 2016 outlays of $2,304,265,586. Improper payments totaling $529,911 were identified and extrapolated to the entire Farm Bill population, resulting in an estimated $25,831,171 of improper payments.

NRCS also performed improper payment testing for the Hurricane Sandy program. NRCS tested 394 payments based on FY 2016 outlays of $3,474,176. No improper payments were noted.

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

Fraud Reduction Report

NRCS is committed to reducing fraud. NRCS continued its previously established fraud reduction efforts in FY 2017. NRCS's fraud reduction efforts include the following:

Risk Assessment

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

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

Technology

The A-123 Appendix A, annual assessment includes 15 automated continuously monitored financial controls. The controls are configured in the USDA financial system to detect potential fraud/misuse. Configuration changes are immediately reported as exceptions to responsible control owners and first line supervisors, and the Internal Controls Division has the ability to run real-time system reports to further monitor exceptions. An oversight workflow is established where the OCFO's Internal Audit and Compliance Group is responsible for assigning remediation tasks to correct any exception issues. Reports are available to be communicated to NRCS management.

Entity Level Controls

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

Access Controls

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

Segregation of Duties (SOD)

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

Transactional Control Objectives to Reduce Fraud Risk

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

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

Table 50: Financial Transactions Tested to Assess Risk of Fraud

Reduce the Footprint

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

NRCS real property footprint has shown a six percent decrease in square footage over the last two years. This is attributed to consolidating some employees in mission service centers and office staff taking proactive steps to be more in compliance with the reduce the foot print guidance.

Operation and maintenance costs increased less than one percent over the past two years. The reason for the increase in costs in view of the reduction in square footage primarily due to rising real property rental rates.

	FY 2015 Baseline	FY 2017	Change (2015-2017)
Office and Warehouse Square Footage	3,468,128	3,268,006	(200,122)

Table 51: Reduce the Footprint Baseline Comparison

	FY 2015 Baseline	FY 2017	Change (2015-2017)
Operation and Maintenance Costs	$35,403,163	$35,495,810	$92,646

Table 52: Operations and Maintenance Costs - Owned and Direct Lease Buildings

Grants Oversight & New Efficiency (GONE) Act Requirements

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

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

Category	2-3 Years	>3-5 Years	>5 Years
Number of Grants and Cooperative Agreements with Zero Dollar Balances	0	0	0
Number of Grants and Cooperative Agreements with Undisbursed Balances	166	1,219	249
Total Amount of Undisbursed Balances	$1,347,554	$1,215,328	$159,829

Table 53: Grants/Cooperative Agreements Not Closed and the Period of Performance Has Elapsed By More Than Two Years

Challenges leading to the delay in grant and cooperative agreement closeout include staffing shortages in the NRCS Grants and Agreement Service Branch. Because of the shortages, a priority is placed on processing new agreements, which limits the amount of staff time for agreement closeout. More resources will be provided to agreement closeout in FY 2018, including enlisting contractor support. Closing out these agreements is an agency priority.

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