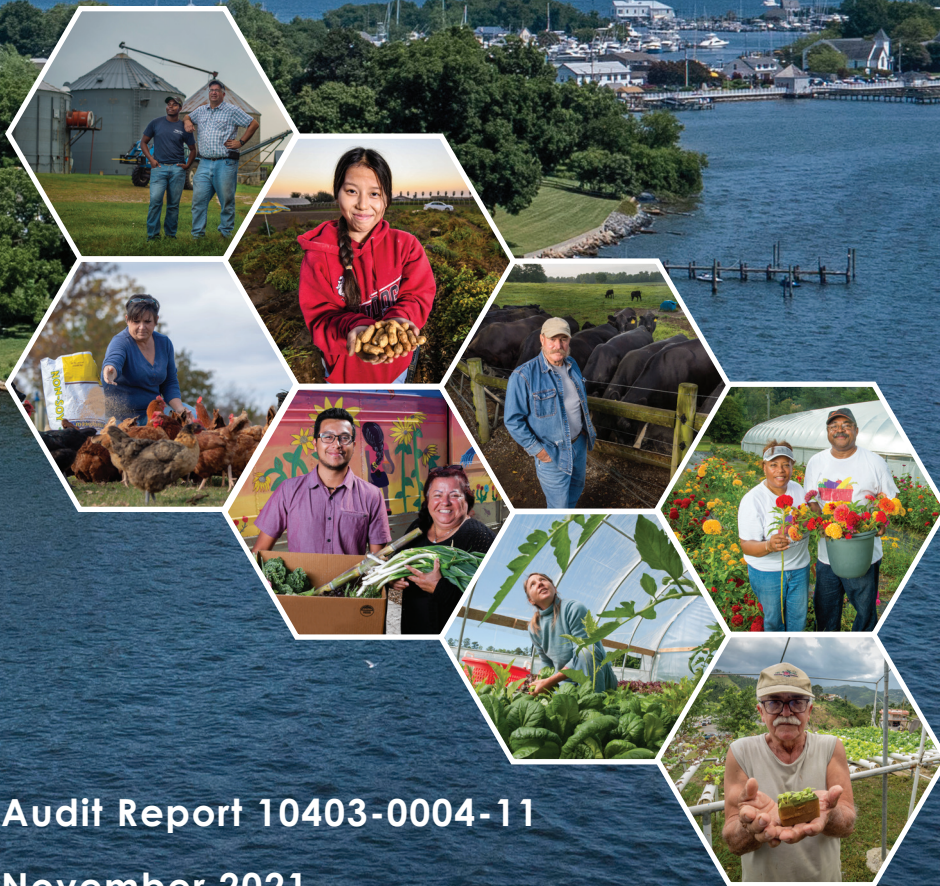




OFFICE OF INSPECTOR GENERAL  
U. S. DEPARTMENT OF AGRICULTURE

# Natural Resources Conservation Service's Financial Statements for Fiscal Years 2021 and 2020



Audit Report 10403-0004-11

November 2021





**OFFICE OF INSPECTOR GENERAL**  
United States Department of Agriculture



**DATE:** November 15, 2021

**AUDIT  
NUMBER:** 10403-0004-11

**TO:** Terry Cosby  
Chief  
Natural Resources Conservation Service

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

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

**FROM:** Gil H. Harden  
Assistant Inspector General for Audit

**SUBJECT:** Natural Resources Conservation Service's Financial Statements for Fiscal  
Years 2021 and 2020

This report presents the results of the audit of Natural Resources Conservation Service's (NRCS) financial statements for the fiscal years ending September 30, 2021 and 2020. The report contains an unmodified opinion on the consolidated financial statements, as well as an assessment of NRCS' internal controls over financial reporting and compliance with laws and regulations.

KPMG LLP, an independent certified public accounting firm, conducted the audit. In connection with the contract, we reviewed KPMG LLP's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit, in accordance with government auditing standards issued by the Comptroller General of the United States of America (U.S.), was not intended to enable us to express, and we do not express, an opinion on NRCS' consolidated financial statements; internal control; whether NRCS' financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996 (FFMIA); or conclusions on compliance with laws and regulations. KPMG LLP is responsible for the attached auditor's report, dated November 12, 2021, 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 21-04, *Audit Requirements for Federal Financial Statements*.

It is the opinion of KPMG LLP, that the consolidated financial statements present fairly, in all material respects, NRCS' financial position as of September 30, 2021 and 2020, and its net cost, changes in net position, and budgetary resources and the related notes to the consolidated financial statements in accordance with accounting principles generally accepted in the U.S.

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

- controls over obligations and unfilled customer orders;
- controls over expenditures;
- entity level controls; and
- controls over journal vouchers.

KPMG LLP considered the first three deficiencies to be material weaknesses. The results of KPMG LLP's tests of compliance with laws and regulations disclosed instances of noncompliance with FFMIA and the Single Audit Act.

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

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



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

## **Independent Auditors' Report**

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

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of the United States Department of Agriculture, Natural Resources Conservation Service (NRCS), which comprise the consolidated balance sheets as of September 30, 2021 and 2020, and the related consolidated statements of net cost, and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 21-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the United States Department of Agriculture, Natural Resources Conservation Service as of September 30, 2021 and 2020, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.



## *Other Matters*

### *Interactive Data*

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

### *Required Supplementary Information*

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

### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The Table of Contents, Message from the Chief, and the Other Information section are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

## **Other Reporting Required by Government Auditing Standards**

### *Internal Control over Financial Reporting*

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2021, we considered the NRCS's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NRCS's internal control. Accordingly, we do not express an opinion on the effectiveness of the NRCS's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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



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. We consider the deficiencies described in Exhibit I to be material weaknesses.

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 deficiency described in Exhibit II to be a significant deficiency.

#### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the NRCS's consolidated financial statements as of and for the year ended September 30, 2021 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 21-04, and which are described in Exhibit III.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances, described in Exhibit III, in which the NRCS's financial management systems did not substantially comply with the applicable Federal accounting standards and the United States Government Standard General Ledger at the transaction level. The results of our tests disclosed no instances in which the NRCS's financial management systems did not substantially comply with the Federal financial management systems requirements.

#### *NRCS's Responses to Findings*

The NRCS's responses to the findings identified in our audit are described in Exhibit IV. The NRCS's responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the responses.

#### *Purpose of the Other Reporting Required by Government Auditing Standards*

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

KPMG LLP

Washington, D.C.  
November 12, 2021



## Exhibit I – Material Weaknesses

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### Number 1: Improved Controls are Needed Over Obligations and Unfilled Customer Orders

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Natural Resources Conservation Service's (NRCS) management continues to perform ongoing remediation efforts to resolve prior years' findings with respect to undelivered orders (UDOs). Despite the ongoing remediation efforts, NRCS continues to lack effective internal controls to ensure the completeness and accuracy of its budgetary account balances reported in the financial statements.

During fiscal year (FY) 2021, internal controls were not effective to ensure the:

- Timely and accurate recording of obligations and unfilled customer orders (UCOs);
- Timely resolution of invalid or expired obligations from the unliquidated obligations report; and
- Adjustments processed to UDOs via automated processes are recorded to the correct general ledger accounts.

Specifically, during FY 2021, we identified:

- One exception related to the modification of an obligation that was executed in FY 2020 but was not recorded until FY 2021. The factual and projected amount for the exception totaled \$21.6 thousand and \$9.7 million, respectively; and
- One exception related to the overstatement of a UCO and the understatement of revenue and related accounts receivable where revenue was earned in a prior period, but the UCO was not liquidated, and revenue and related accounts receivable were not recognized at the time. The factual and projected amount for the exception totaled \$143 thousand and \$14.3 million, respectively.

Additionally, we noted:

- The quarterly review of open obligations control was not properly designed to ensure the status of contracts are reviewed and invalid or expired obligations are deobligated timely; and
- Controls were not properly designed to ensure that adjustments recorded to correct general ledger system posting logic issues were recorded to the proper budgetary accounts (e.g., UDOs or upward/downward adjustments).

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

The exceptions described above occurred because of a lack of:

- Sufficient training and enforcement of accountability of control owners to adhere to processes and control activities as designed and implemented;
- Effective and timely communication of the need to record obligations and UCOs; and
- Robust monitoring procedures to evaluate unliquidated obligations on an ongoing basis.

Additionally, NRCS's systems do not transmit complete and accurate information for certain types of budgetary transactions to facilitate the proper recording of those transactions in compliance with Federal accounting standards and the United States Government Standard General Ledger (USSGL).

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

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

Green Book, Principle 5 – Enforce Accountability, states:

- 5.03 Management holds entity personnel accountable for performing their assigned internal control responsibilities. The oversight body, in turn, holds management accountable as well as the organization as a whole for its internal control responsibilities.

Green Book, Principle 14 – Communicate Internally, states:

- 14.01 Management should internally communicate the necessary quality information to achieve the entity's objectives.
- 14.03 Management communicates quality information down and across reporting lines to enable personnel to perform key roles in achieving objectives, addressing risks, and supporting the internal control system. In these communications, management assigns the internal control responsibilities for key roles.

Green Book, Principle 13 – Use Quality Information, states:

- 13.05 Management processes the obtained data into quality information that supports the internal control system. This involves processing data into information and then evaluating the processed information so that it is quality information. Quality information meets the identified information requirements when relevant data from reliable sources are used. Quality information is appropriate, current, complete, accurate, accessible, and provided on a timely basis. Management considers these characteristics as well as the information processing objectives in evaluating processed information and makes revisions when necessary so that the information is quality information.
- 13.06 Management processes relevant data from reliable sources into quality information within the entity's information system. An information system is the people, processes, data, and technology that management organizes to obtain, communicate, or dispose of information. Management uses the quality information to make informed decisions and evaluate the entity's performance in achieving key objectives and addressing risks.

Green Book, Principle 12 – Implement Control Activities, states:

- 12.05 Management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks. If there is a significant change in an entity's process, management reviews this process in a timely manner after the change to determine that the control activities are designed and implemented appropriately. Changes may occur in personnel, operational processes, or information technology.



## **Recommendations Related to Controls Over Obligations and Unfilled Customer Orders:**

We recommend that NRCS management, along with Farm Production and Conservation Business Center (FPAC-BC):

1. Monitor open obligations to ensure that invalid or expired obligations are deobligated timely;
2. Provide additional training to control owners responsible for the review and approval of obligations and establish mechanisms to enforce accountability of control owners' adherence to ensuring obligations are posted in the general ledger with the correct accounting information;
3. Identify and implement solutions to address current system limitations preventing the proper recording of budgetary transactions;
4. Review the business rules used for the automated process used to make adjustments to the recorded obligation activity to verify correcting entries are recorded to correct general ledger accounts and to determine the root cause for incorrect entries identified during the FY 2021 audit; and
5. Enhance internal communication to ensure that information is provided to control owners timely and prevent delays in the recording of obligations and unfilled customer orders.

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## **Number 2: Improved Controls are Needed Over Expenditures**

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### **Improved Controls are Needed Over the Review and Recording of Expenditure Transactions**

NRCS lacks sufficient internal control policies and procedures related to the review of expenditure activities to timely prevent or detect and correct errors related to expenses. Specifically, controls were not implemented to ensure expenditures were recorded in the correct fiscal year (i.e., period-end accrual controls are deficient) and that transactions were appropriately expensed or capitalized.

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

Specifically, during FY 2021 we identified six exceptions in a sample of 259 expense and subsequent disbursement transactions. Of these exceptions:

- One exception related to expenses recorded in the current fiscal year that were not properly accrued in the prior fiscal year with total factual and projected amounts of error of \$97 thousand and \$7.5 million, respectively; and
- Five exceptions related to capital expenditures that were improperly expensed instead of capitalized with total factual and projected amounts of error of \$1.7 million and \$24 million, respectively. One of these exceptions was also recorded out of period (i.e., incurred in FY 2021 but recorded in FY 2022).

Additionally, NRCS improperly expensed the entire software licenses cost in the period in which the license was initiated rather than capitalizing and amortizing the cost over the term of the license. This non-GAAP policy was not identified or quantified by management and resulted in a \$7.4 million understatement of assets (advances and prepayments).

The exceptions above occurred because:

- NRCS does not have adequate procedures in place to determine if field offices that did not respond to the expense accruals (relating to open obligations) request analyzed whether there is a material effect on the financial statements.

- Management did not enforce accountability of control operators to consistently execute policies and procedures (internal controls) over the:
  - recording of accruals and expenses as designed and implemented, to ensure that all expenses are accurately recorded in the general ledger in a timely manner; and
  - identification and accurate recording of expenditures for capitalizable assets.
- A lack of sufficient training on process execution by NRCS process owners related to the identification and recording of capital transactions.
- Management does not perform robust monitoring procedures to evaluate the completeness and accuracy of accrued liabilities.

Green Book, Principle 5 – Enforce Accountability, states:

- 5.02 Management enforces accountability of individuals performing their internal control responsibility. Accountability is driven by the tone at the top and supported by the commitment to integrity and ethical values, organizational structure, and expectations of competence, which influence the control culture of the entity. Accountability for performance of internal control responsibility supports day-to-day decision making, attitudes, and behaviors. Management holds personnel accountable through mechanisms such as performance appraisals and disciplinary actions.
- 5.03 Management holds entity personnel accountable for performing their assigned internal control responsibilities. The oversight body, in turn, holds management accountable as well as the organization as a whole for its internal control responsibilities.

Green Book, Principle 16 – Perform Monitoring Activities, states:

- 16.05 Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions.
- 16.09 Management evaluates and documents the results of ongoing monitoring and separate evaluations to identify internal control issues. Management uses this evaluation to determine the effectiveness of the internal control system. Differences between the results of monitoring activities and the previously established baseline may indicate internal control issues, including undocumented changes in the internal control system or potential internal control deficiencies.

Green Book, Principle 10 – Design of Control Activities, states:

- 10.02 Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system.
- 10.03 (Figure 6) Management designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system.
- 10.03 Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.



Green Book, Principle 17 – Evaluate Issues and Remediate Deficiencies, states:

- 17.06 Management completes and documents corrective actions to remediate internal control deficiencies on a timely basis. Management, with oversight from the oversight body, monitors the status of remediation efforts so that they are completed on a timely basis.

#### **Recommendations Related to Controls Over Expenditures:**

We recommend that NRCS management, along with FPAC-BC, implement corrective action over the following:

6. Provide adequate training to personnel relating to the accrual policy;
7. Provide additional guidance and/or training to employees over the recording of capitalizable expenditures;
8. Establish mechanisms to enforce accountability of control operators in ensuring the existence, accuracy, and timeliness of expense activity; and
9. Design and implement procedures that enable management to completely and accurately accrue for expenditures that are incurred but not recorded as of period end. If the process involves an estimate, then additional procedures (i.e., retrospective review) over the estimate should be performed.

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#### **Number 3: Improved Entity Level Controls are Needed**

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

The FPAC-BC was established in FY 2019 to oversee financial management, budgeting, human resources, information technology, acquisitions/procurement, customer experience, internal controls, risk management, strategic and annual planning, and other similar activities for the FPAC Mission area and its component agencies, including NRCS. While NRCS and FPAC-BC have implemented corrective action plans to address internal control weaknesses and strengthen internal controls, NRCS and FPAC-BC have not fully integrated and developed ELCs that are conducive to reliable financial reporting.

As reported in the material weaknesses noted above and the significant deficiency noted in Exhibit II, we identified control deficiencies with underlying causes that were similar and pervasive throughout NRCS that are indicative of deficiencies in ELCs. These ELC deficiencies include:

- A lack of enforcement of accountability of personnel for performing their assigned internal control responsibilities (Green Book, Principle 5);
- Failure to adequately identify, analyze, and respond to risks of potential misstatement to the financial statements, including risks related to the recording of manual journal vouchers (Green Book, Principle 7); and
- Failure to communicate quality information to enable personnel to adequately perform their roles to support the internal control system (Green Book, Principle 14).

Additionally, we noted that areas of material weaknesses as assessed by management have reoccurred for the past several years. This is indicative of a failure to implement effective corrective actions to address prior years' control deficiencies identified by management as part of their self-assessment (Green Book, Principles 16 and 17).

**Recommendations Related to Entity Level Controls:**

In addition to the recommendations made in relation to the areas of material weaknesses noted in Numbers 1 and 2 above and the significant deficiency noted in Exhibit II, we recommend that management:

10. Continue to review and revise as necessary its internal control program to plan, perform, monitor, and report and communicate a comprehensive, adequate, and appropriate internal assessment of the operating effectiveness of internal controls. This includes establishing clear timelines to implement and close corrective action plans and provide adequate training to process owners to create relevant and attainable plans that can be successfully completed within one year.



## **Exhibit II – Significant Deficiency**

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### **Number 4: Improved Controls are Needed over Journal Vouchers**

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During FY 2021, FPAC-BC developed a journal voucher policy which established journal entry review and documentation requirements. However, controls were not designed and implemented to ensure that the population of journal vouchers subject to the policy was fully defined and that all journal vouchers recorded to the general ledger followed the requirements outlined in the standard operating procedures related to documentation and approvals.

During our review of the population of manual journal vouchers, we identified certain transactions that were automated and would not be subject to the policy. We also determined that the documentation and review requirements were not consistently applied throughout the period under audit.

The deficiency occurred because management did not analyze and respond to the risk that the journal voucher policy may not be applied to all journal vouchers.

Green Book, Principle 10 – Design of Control Activities, states:

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

Green Book, Principle 7 – Identify, Analyze, and Respond to Risks, states:

- 7.01 Management should identify, analyze, and respond to risks related to achieving the defined objectives.
- 7.08 Management designs responses to the analyzed risks so that risks are within the defined risk tolerance for the defined objective.

Green Book, Principle 12 – Implement Control Activities, states:

- 12.02 Management documents in policies the internal control responsibilities of the organization.
- 12.04 ...Management communicates to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities.

Green Book, Principle 13 – Use Quality Information, states:

- 13.01 Management should use quality information to achieve the entity's objectives.
- 13.02 Management designs a process that uses the entity's objectives and related risks to identify the information requirements needed to achieve the objectives and address the risks. Information requirements consider the expectations of both internal and external users. Management defines the identified information requirements at the relevant level and requisite specificity for appropriate personnel.

We recommend that NRCS management, along with FPAC-BC:

11. Evaluate the population of all recorded transactions and define the specific transactions that are considered to be manual journal vouchers and subject to the policy requirements.
12. Communicate with all FPAC-BC stakeholders to ensure all personnel who prepare, review, and record journal vouchers are aware of the policy requirements.

### Exhibit III – Compliance and Other Matters

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#### **Number 5: NRCS Did Not Substantially Comply with the Federal Financial Management Improvement Act of 1996 (FFMIA)**

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

We identified instances where the financial management systems did not substantially comply with the applicable Federal accounting standards and the USSGL at the transaction level. Specifically, we noted that NRCS's systems do not transmit complete and accurate information for certain types of budgetary transactions to facilitate the proper recording of those transactions.

We continue to recommend that NRCS management work with the United States Department of Agriculture to implement the recommendations presented in Exhibit I, Number 2, to resolve the instances of noncompliance with FFMIA.

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#### **Number 6: Instances of Noncompliance with the Single Audit Act Amendments of 1996**

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The *Single Audit Act Amendments of 1996 (Single Audit Act)*, as implemented by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, requires federal awarding agencies to monitor their grantees, ensure they receive grantee *Single Audit* reports timely, and follow-up on *Single Audit* findings to ensure grantees take appropriate and timely action.

NRCS did not properly design controls to ensure audits were completed and to follow-up on audit findings to verify that the grant recipients took appropriate and timely corrective action as required by the *Uniform Guidance*. Specifically, NRCS was unable to provide evidence of management's review of the most recent *Single Audit* reports for NRCS grant recipients and any follow-up actions taken by NRCS related to audit findings.

We recommend that NRCS and FPAC-BC management:

13. Design control procedures and dedicate sufficient resources to monitor grantees in accordance with the Single Audit Act and the *Uniform Guidance*.



**Exhibit IV – NRCS’s Management Response**



**United States  
Department of  
Agriculture**

Farm Production and  
Conservation  
Business Center

Natural Resources  
Conservation Service

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

**TO:** Gil H. Harden  
Assistant Inspector General  
USDA

**FROM:** Kayla Futch  
KPMG LLP  
1801 K-Street, NW  
Washington, DC 20006

Margo E. Erny  
Chief Financial Officer  
Farm Production and Conservation

**MARGO ERNY**

Digitally signed by MARGO  
ERNY  
Date: 2021.11.12 09:02:56  
-05'00'

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

We have reviewed the KPMG Independent Auditors’ Report dated November 12, 2021. We are very pleased with the Auditors’ unmodified opinion on NRCS’s Fiscal Year (FY) 2021 consolidated financial statements.

NRCS/FPAC agrees with the findings presented in the auditors’ report. NRCS/FPAC is in the process of developing and implementing corrective actions to remediate the findings and will continue to work with the USDA Office of Inspector General to ensure effective remediation in FY 2022.

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



# Natural Resources Conservation Service U.S. DEPARTMENT OF AGRICULTURE

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Fiscal Year 2021  
Agency Financial Report

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## **Message from the Chief**

On behalf of the Natural Resources Conservation Service (NRCS), I respectfully submit the Agency Financial Report (AFR) for Fiscal Year (FY) 2021.

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 A-123, Management's Responsibility for Internal Control, NRCS acknowledges responsibility for the internal control environment. Management conducted its annual assessment of internal controls and provided a modified statement of assurance that controls are operating effectively except for the material weaknesses identified. Management has also assessed the completeness and reliability of the performance and financial data used in this report. NRCS's independent auditors have issued an unmodified opinion on the NRCS financial statements for fiscal years 2021 and 2020 with material weaknesses noted. NRCS, in coordination with the Farm Production and Conservation Business Center, has made financial reporting improvements to remediate existing material weaknesses and financial system noncompliance. In the next fiscal year, we will continue to strive to improve processes and procedures to ensure internal controls provide the necessary assurances to achieving NRCS's objectives.

### *About NRCS*

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

NRCS has a mission to deliver conservation solutions so agricultural producers can protect natural resources and feed a growing world. NRCS is working with America's producers to ensure the long-term sustainability of American agriculture.

Farmers are our customers and the backbone of agriculture throughout the Nation. Two-thirds of the land in the lower 48 states is privately owned. Private landowner stewardship will determine the land's health and productivity. Our customers are voluntarily making improvements to help their operations and conserve our natural resources. NRCS continues to offer financial and technical resources to help producers implement conservation practices across the landscape and protect and preserve our natural resources nationwide.



# Management's Discussion and Analysis (Unaudited)

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

The Management's Discussion and Analysis (MD&A) serves as a high-level overview for the years ended September 30, 2021 and 2020 of financial and non-financial performance for the Natural Resources Conservation Service (NRCS), an agency of the United States Department of Agriculture (USDA).

### **Mission and Organizational Structure**

#### **Mission Statement**

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

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

NRCS provides technical and financial assistance to landowners to fulfill its mission. This assistance is delivered through one overarching major program that supports the strategic goal: "Strengthen the Stewardship of Private Lands Through Technology and Research".

Management’s Discussion and Analysis (Unaudited)

Organizational Structure

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

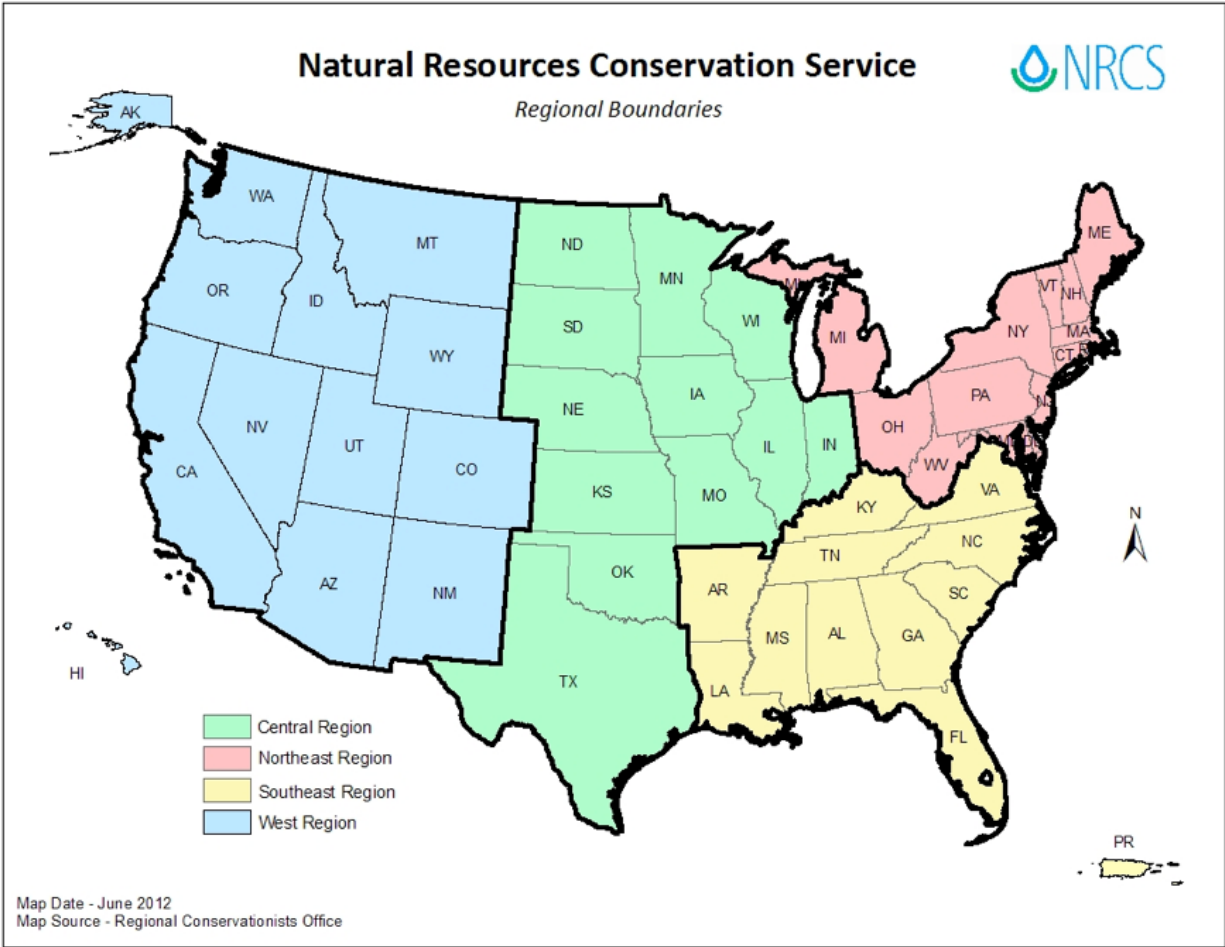


Table 1: NRCS Organizational Map of Regions

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

Management’s Discussion and Analysis (Unaudited)



Natural Resources Conservation Service  
U.S. DEPARTMENT OF AGRICULTURE

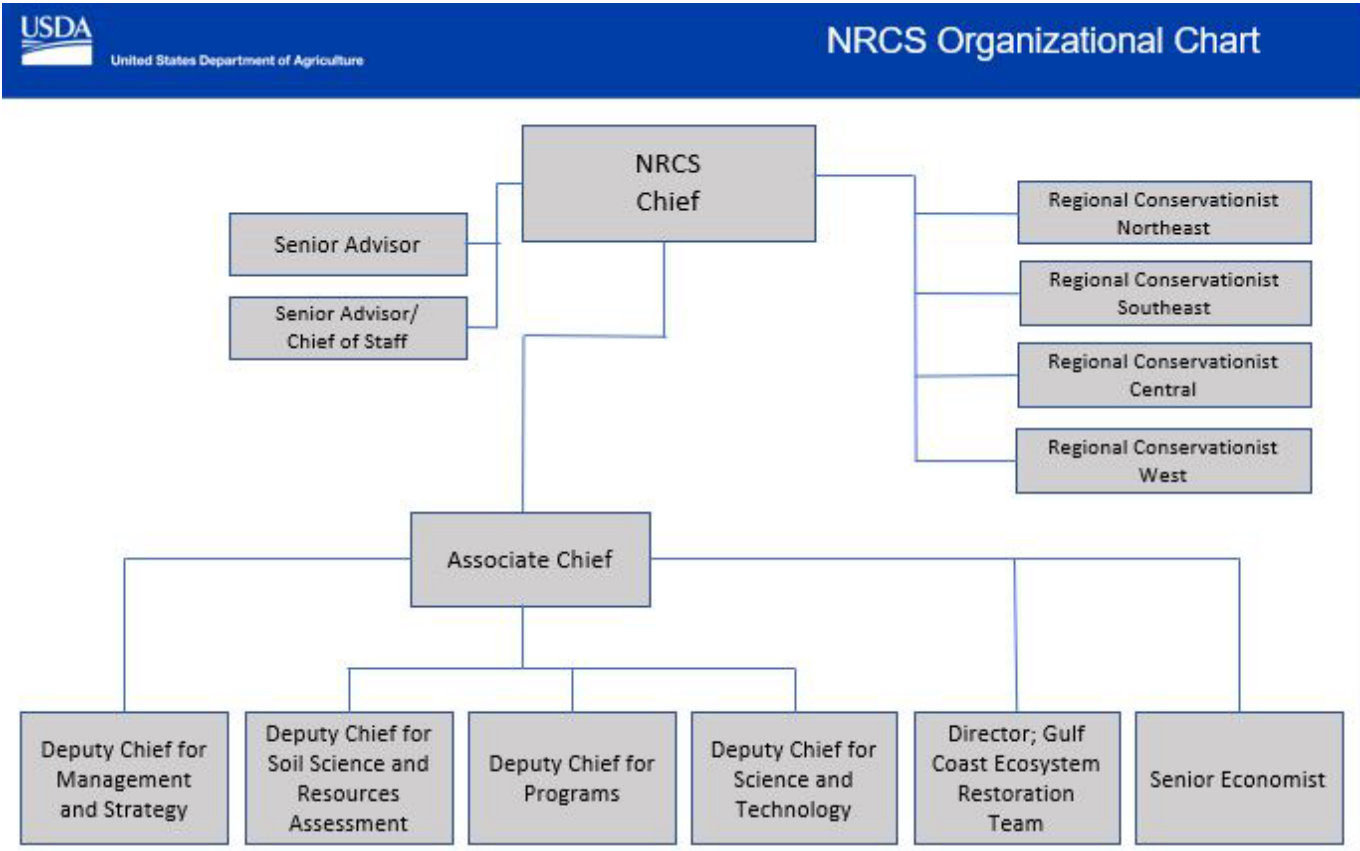


Table 2: NRCS Organizational Chart as of September 30, 2021

# Management's Discussion and Analysis (Unaudited)

## Performance Goals, Objectives, and Results

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

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

## Performance Goals and Results

The following table displays NRCS's key performance measure accomplishments. The Key Performance Measures (KPM) listed are the USDA measures from USDA Strategic Goal 5: Strengthen the Stewardship of Private Lands Through Technology and Research. Please note that full end of FY 2021 updates will be found in the FY 2021 Annual Performance Report (APR) which will be published with the FY 2023 Annual Performance Plan and the FY 2023 budget. These will be available in February 2022 on the Office of Budget and Program Analysis (OBPA) website, <https://www.usda.gov/our-agency/about-usda/performance>.

USDA Objective	Key Performance Indicator	Trend <sup>1</sup>			As of September 30, 2021		
		FY 2018	FY 2019	FY 2020	Target	Actual	Result <sup>2</sup>
5.1 Enhance Conservation planning with Science-Based Tools and Information	Contract Implementation Ratio – EQIP (%)	87	87	87	87	87	Met <sup>2</sup>
	Practice Implementation Rate - (%)	43	55	43	53	68	Met <sup>2</sup>
5.2 Promote Productive Working Lands	Cropland with conservation applied to improve soil quality, Conservation Technical Assistance (CTA) – (millions of acres)	6	5.7	6.4	6	3.6	UnMet <sup>2</sup>
	Cropland with conservation applied to improve soil quality, Environmental Quality Incentive Program (EQIP) – (millions of acres)	3.1	3.4	3.9	3.4	3.4	Met <sup>2</sup>
	Tons of sediment prevented from leaving cropland and entering waterbodies (million tons)	5.3	6.3	8.2	6	8.1	Met <sup>2</sup>
	Cropland with an applied Soil Health Management System (SHMS) (thousand acres)	N/A	N/A	N/A	225	313	Met <sup>2</sup>
5.3 Enhance Productive Agricultural Landscapes	Working lands protected by conservation easements (thousand acres)	163	178	167	163	145	UnMet <sup>2</sup>
1. Data Source. NRCS tracks and evaluates Field and State level conservation planning efforts and practice implementation. The data source is the National Planning and Agreements Database and ProTracts.							
2. Rationale for Met Range: Estimated performance October 1, 2020 through September 30, 2021. <u>Met</u> : A KPI is considered met only if the actual is at least 100% of the target, <u>Need Improvement</u> : KPI actual is 10% or less within range of the target, and <u>Unmet</u> : KPI actual is more than 10% off range from the target.							

Table 3: Performance Scorecard for FY 2021 – Trends, Targets, and Results

## Management's Discussion and Analysis (Unaudited)

### Performance Data Verification and Validation

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

- **Completeness of Data** – The reported performance measures are based on data reported from October 1, 2020 through September 30, 2021. Numerous data quality mechanisms within PRS ensure the completeness of each performance record entry. Each performance record must adhere to a set of quality assurance requirements during the upload process. Business rules, definitions, and internal controls enforce accountability policies or business requirements and diagnose potential entry errors. Error reports are generated for managers at multiple levels to review for completeness or rejected entries. On an annual basis, the State Conservationists certify that the data is complete and accurate. The conservation data from the National Planning and Agreements Database (NPAD) is then fed into a model to estimate the carbon and sediment retained. The model can provide estimates for thirty-nine percent of cropland conservation practices applied and fifty-six percent of the acres addressed with a conservation practice.
- **Reliability of Data** – The data reported for performance measures was determined within PRS based on information validated and received from NPAD and ProTracts. Conservation plans are developed in consultation with the customer, created with the Conservation Desktop, and warehoused in the NPAD. Applied conservation practices are date-stamped, geo-referenced, and linked to employee identification, enabling detailed quality assurance reviews. Periodic reviews are conducted by state office and headquarters personnel to assess the accuracy of reported data. The modeled aspects of the performance data have reliability estimates based on the statistical reliability of the National Resource Inventory (NRI).
- **Quality of Data** – The data is reported by field staff located where the conservation is occurring. Field staff are trained and skilled in conservation planning and application suited to the local resource conditions. Error checking enhancements and reports within the PRS application maintain data quality by allowing users at local, state, and national levels to monitor data inputs. NRCS designates key personnel, at both the state and national levels, to conduct quality assurance reviews periodically throughout the year to ensure the data is reliable and accurate. At the end of the fiscal year, each State Conservationist signs and certifies that PRS data is valid, complete, and reliable. The data quality of modeled aspects of the performance data are based on the scientifically peer-reviewed modeling procedures and protocols.
- **Linking Performance to Programs** – To ensure program accountability and evaluate program efficiency, data on performance measures for conservation applied must be linked to the program that funded the staff time needed to carry out each activity.
- **Limitations Associated with Performance Management Reporting** – Problems with performance management reporting are typically caused by errors in data entry. NRCS developed several software controls within PRS to ensure such errors are minimized.



# Management's Discussion and Analysis (Unaudited)

## **Analysis of Entity's Financial Statement and Stewardship Information**

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

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

NRCS strives to provide relevant, reliable, and accurate financial information related to agency activities.

### **Limitations of the Consolidated Financial Statements**

The principal financial statements are prepared to report the financial position, financial condition, and results of operations, pursuant to the requirements of 31 U.S.C. § 3515(b). The statements are prepared from records of Federal entities in accordance with Federal generally accepted accounting principles (GAAP) and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. Government.

The following tables reflect the comparative amounts as of September 30, 2021 and 2020.

### **Assets**

NRCS reported approximately \$14.2 billion in assets as of September 30, 2021, representing an increase of one percent compared with assets reported as of September 30, 2020.

<b>Assets (in millions)</b>	2021	2020	Difference	Percent Difference
Fund Balance with Treasury	\$ 14,000	\$ 13,961	\$ 39	0%
Accounts Receivable, Net	13	18	(5)	-28%
Advances	7	4	3	75%
<b>Total Intragovernmental Assets</b>	<b>\$ 14,020</b>	<b>\$13,983</b>	<b>\$ 37</b>	<b>0%</b>
Accounts Receivable, Net	2	2	-	0%
General Property, Plant and Equipment, Net	234	144	90	63%
Advances to Others	34	21	13	62%
<b>Total Assets</b>	<b>\$ 14,290</b>	<b>\$14,150</b>	<b>\$ 140</b>	<b>1%</b>

Net General Property Plant and Equipment increased \$90 million in FY2021 versus FY2020. This was largely the result of deployment of \$110 million Internal Use Software (IUS).

Table 4: Assets

## Management's Discussion and Analysis (Unaudited)

### Liabilities

NRCS reported approximately \$1.1 billion in liabilities as of September 30, 2021, a nine percent decrease versus the same period in FY 2020. The major liability amounts are provided in the table below. The majority of the decrease is a result of lower accruals for Other Liabilities, Grants and Agreements at the end of FY 2021 versus FY2020 due to fewer open obligations.

<b>Liabilities (in millions)</b>	2021	2020	Difference	Percent Difference
Accounts Payable	\$ 38	\$ 40	\$ (2)	-5%
Other Liabilities	19	19	-	0%
<b>Total Intragovernmental Liabilities</b>	<b>\$ 57</b>	<b>\$ 59</b>	<b>\$ (2)</b>	-3%
Accounts Payable	\$ 34	\$ 33	1	3%
Federal Employee and Veterans' Benefits	111	109	2	2%
Advances from Others and Deferred Revenue	16	15	1	N/A
Other Liabilities	928	1,044	(116)	-11%
<b>Total Liabilities</b>	<b>\$ 1,146</b>	<b>\$ 1,260</b>	<b>\$ (114)</b>	-9%

Table 5: Liabilities

### Net Position

NRCS reported a net position of approximately \$13 billion as of September 30, 2021, representing an increase of two percent over the same period in FY 2020. Net position represents unexpended appropriations consisting of undelivered orders as well as unobligated funds, and the cumulative results of operations.

<b>Net Position (in millions)</b>	2021	2020	Difference	Percent Difference
Unexpended Appropriations	\$ 2,040	\$ 2,130	\$ (90)	-4%
Cumulative Results of Operations	11,104	10,760	344	3%
<b>Total Net Position</b>	<b>\$ 13,144</b>	<b>\$ 12,890</b>	<b>\$ 254</b>	2%

Table 6: Net Position

## Management's Discussion and Analysis (Unaudited)

### Net Cost of Operations

NRCS's net cost of operations was approximately \$4.2 billion as of September 30, 2021, representing a decrease of five percent from last year.

<b>Net Cost of Operations (in millions)</b>	2021	2020	Difference	Percent Difference
Gross Costs	\$ 4,247	\$ 4,475	\$ (228)	-5%
Less: Total Earned Revenue	49	59	(10)	-17%
<b>Total Net Cost of Operations</b>	<b>\$ 4,198</b>	<b>\$ 4,416</b>	<b>\$ (218)</b>	-5%

Table 7: Net Cost of Operations

### Budgetary Resources

Total budgetary resources were \$11 billion as of September 30, 2021, representing a decrease of eleven percent from September 30, 2020. This is attributable largely to a year over year decrease of \$1.5 billion in funding transfers from CCC to Farm Bill programs.

<b>Budgetary Resources (in millions)</b>	2021	2020	Difference	Percent Difference
	\$ 11,047	\$ 12,344	\$ (1,297)	-11%

Table 8: Budgetary Resources

# Management's Discussion and Analysis (Unaudited)

## **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 OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.

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

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

## **Management Assurances**

NRCS assessed its financial management systems and internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations, in accordance with Departmental guidelines and as required by FMFIA and FFMIA as of September 30, 2021. This assessment included the safeguarding of assets and compliance with applicable laws and regulation. As a result of this assessment, four material weaknesses, one financial system non-conformance, three instances of non-compliance with laws and regulations, and one potential Anti-deficiency (ADA) were noted. NRCS has four material weaknesses related to unliquidated obligations, accrued expenses, entity level controls, and maintaining, controlling and monitoring the FMMI general ledger.


NRCS is non-compliant with the following:

- FMFIA Section 4, since its systems do not conform to financial system requirements;
- FFMIA since transactions are not recorded in accordance with Federal accounting standards and the USSGL at the transaction level; and
- Laws and regulations pertaining to Data Act reporting for USAspending.gov.
- Potential Anti-deficiency (ADA) related to software licenses. Office of General Council (OGC) is reviewing.

Therefore, NRCS is providing modified assurance that NRCS's systems of internal control comply with FMFIA and FFMIA. The details of these deficiencies are provided in the sections below.

## Management's Discussion and Analysis (Unaudited)

The following is the FY 2021 FMFIA and FFMIA Assurance Statement:

 **United States Department of Agriculture**

**United States Department of Agriculture**  
Natural Resources and Conservation Service  
1400 Independence Ave, SW  
Washington, DC

**TO:** Lynn Moaney  
Deputy Chief Financial Officer

**THROUGH:** Gloria Montaño Greene  
Deputy Under Secretary  
Farm Production and Conservation

**FROM:** Terry Cosby  
Chief  
Natural Resources Conservation Service

**SUBJECT:** Natural Resources Conservation Service's FY 2021 Annual Certification Statement – as of June 30, 2021

**GLORIA MONTANO GREENE**  
Digitally signed by GLORIA MONTANO GREENE  
Date: 2021.08.20 08:47:26 -07'00'

**TERRY COSBY**  
Digitally signed by TERRY COSBY  
Date: 2021.08.13 16:08:06 -04'00'

**MARGO ERNY**  
Digitally signed by MARGO ERNY  
Date: 2021.08.13 10:02:01 -04'00'

This memorandum provides the Natural Resources Conservation Service (NRCS) assertions to support the Secretary's annual assurances in the *United States Department of Agriculture (USDA) Fiscal Year (FY) 2021 Agency Financial Report*. The assertions included in this statement cover NRCS's assessment of the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA):

- Effectiveness of Internal Control over Operations (FMFIA – Section 2);
- Effectiveness of Internal Control over Reporting (FMFIA- Section 2);
- Compliance with Laws and Regulations (FFMIA- Section 2);
- Conformance with Federal Financial Management System Requirements (FMFIA – Section 4); and
- Compliance with Federal Financial Management System Requirements, Federal Accounting Standards, and the Standard General Ledger at the Transaction Level (FFMIA -Section 803(a)).

NRCS assessed the effectiveness of its operations through multiple internal control and compliance review processes in FY 2021. Business processes and general computer controls related to financial reporting were evaluated through Office of Management and Budget (OMB) Circular A-123, Appendix A reviews and improper payment testing was performed for those programs designated as high risk. Annual quality assurance reviews were conducted on a percentage of programmatic contracts to ensure compliance with policies and procedures (i.e., control of land, underserved farmer status, and other factors). Additionally, Process and

Natural Resources Conservation Service  
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An Equal Opportunity Provider and Employer

## Management's Discussion and Analysis (Unaudited)

Compliance Reviews of programmatic and administrative operations were conducted. The review noted that compliance improvements are needed in the areas of Grants Management, Information Technology, Human Resources, Purchase Cards and Real Property/Leasing. Programmatic improvements were also noted for the Agricultural Conservation Easement Program (ACEP) and the Environmental Quality Incentives Program (EQIP). Furthermore, an annual assessment of Entity Level Controls was conducted based on each of the Green Book's Components and Principles of internal control. The assessment revealed deficiencies within certain principles, however, the overall system of internal control is designed, implemented, and operating effectively. As part of its efforts to ensure an effective control environment, managers are reminded annually that they are responsible for developing and maintaining effective internal controls. Agency senior leadership also submits an annual certification identifying any internal control weaknesses or instances of non-compliance with laws and regulations. As a result of these activities, NRCS is making the following assertions.

### A. Federal Managers' Financial Integrity Act Assertions

#### I. Internal Control over Operations (FMFIA – Section 2)

- a. Management is responsible for developing and maintaining internal control to ensure the effectiveness of operations, reliability of reporting, compliance with applicable laws and regulations, and the safeguarding of assets.
- b. Internal control encompasses accounting and administrative controls. Such controls include program, operational and administrative areas.
- c. Management has conducted its annual evaluations of internal control pursuant to Section 2, for the period ended June 30, 2021.
- d. Based on the results of the evaluations, NRCS provides an unmodified statement of assurance that internal controls are operating effectively over operations.
- e. No new material weaknesses, no new significant deficiencies, and no new control deficiencies were identified during FY 2021.

#### II. Internal Control Reporting (FMFIA – Section 2)

- a. NRCS assessed the effectiveness of internal control over reporting as of June 30, 2021. The assessment followed USDA guidance, OMB Circular A-123, Appendix A (revised) and best practices established by the Department.
- b. The assessment included risk assessments, process descriptions, documentation of key controls, an assessment of the design of key controls, tests of operating effectiveness of properly designed key controls, summary of deficiencies, and the development of corrective action plans for control deficiencies.

The following business processes were reviewed:

1. Data Quality Compliance
2. Awards and Modifications- Grants/Entitlements/Cooperative Agreements (Protracts)



## Management's Discussion and Analysis (Unaudited)

3. Draws and Expenditures –Grants/Entitlements/Cooperative Agreements (Protracts)
  4. Monitoring – Grants/Entitlements/Cooperative Agreements (Protracts)
  5. Fund Balance with Treasury Reconciliation
  6. Budgetary Authority
  7. Period End Reporting
  8. Unliquidated Obligation Review
- c. Management recognizes its responsibility for monitoring and correcting control deficiencies assessed as outside of its risk tolerance.
  - d. Management further certifies that there have been no changes in the operation of controls tested from the sample selection date through June 30, 2021.
  - e. Based on the results of NRCS's internal evaluation and the prior year evaluation of NRCS's external auditors, NRCS provides modified statement of assurance that internal controls over external financial reporting are operating effectively.
  - f. Based on the results of the evaluations, management confirmed that three material weaknesses related to Unliquidated Obligations, Accrued Expenses and Entity Level Controls identified in the prior year still exist. Additionally, one significant deficiency related to Maintaining, Controlling and Monitoring the FMFI General Ledger from the prior year has been upgraded to a material weakness through NRCS's internal evaluations.
  - g. Corrective action plans have been developed and submitted in ACRT. They are identified on the attached Summary of Reportable Deficiencies chart.

### B. Compliance with Laws and Regulations

- a. Anti-Deficiency Act
  - i. Management has not entered contracts that exceed the enacted appropriations for the year or purchased services, benefit, and/or merchandise before appropriations are enacted.
  - ii. NRCS has maintained compliance with all provisions of law that are associated with the Anti-Deficiency Act.
- b. Payment Integrity Information Act of 2019 (formerly Improper Payments Elimination and Recovery Act of 2010, as amended)
  - i. Management has reviewed all applicable programs and activities to identify any area susceptible to improper payments.
  - ii. NRCS has maintained compliance with all provisions of law that are associated with the Payment Integrity Information Act of 2019.
- c. Additional Supplemental Appropriations related to but not limited to the Disaster Relief Act of 2017 and 2019/Bipartisan Budget Act of 2018/Further Additional Supplemental Appropriations for Disaster Relief Requirements Act of 2018
  - i. NRCS has not expended all funding associated with the Emergency Watershed Protection Program.

## Management's Discussion and Analysis (Unaudited)

- ii. NRCS has established appropriate policies and controls, and corrective actions have been taken to mitigate the risk of fraud and inappropriate spending practices regarding activities and expenses related to emergency supplemental/disaster funding for the Emergency Watershed Protection Program.
  - iii. Management has not identified additional significant risk associated with management of disaster relief funding.
- d. Families First Coronavirus Response Act (FFCR Act)/Coronavirus Aid, Relief, and Economic Security Act (CARES Act)/American Rescue Plan (ARPA) of 2021
  - i. This is not applicable to NRCS.
- e. Data Act Reporting for USAspending.gov
  - i. NRCS did not complete data quality compliance testing due to known deficiencies. NRCS does not provide assurance that data integrity processes and controls for Files A, B, C, D1 and D2 align with OMB Circular A-123, are designed effectively, implemented, and operating effectively for all reported data with the exceptions below. This includes controls over agency financial systems, award management systems, and procurement data reported to the Federal Procurement Data System – Next Generation (FPDS-NG).
  - ii. Based on OMB Circular A-123, Appendix A testing, a design deficiency was noted regarding the fact that processes are not in place to ensure that all required data is reported.
  - iii. The associated corrective action plans to become compliant are described in the attached Summary of Reportable Deficiencies chart.
- f. Government Charge Card Abuse Prevention Act
  - i. NRCS has established appropriate policies and controls and corrective actions have been taken to mitigate the risk of fraud and inappropriate charge card practices.
  - ii. Though some control deficiencies were identified, NRCS has not identified significant deficiencies associated with internal controls for purchase, fleet, and travel cards (i.e., centrally billed accounts and individually billed accounts).

### C. Conformance with Federal Financial Management System Requirements (FMFIA – Section 4)

- a. NRCS management evaluated its financial management systems under FMFIA (Section 4) for the period ended June 30, 2021.
- b. NRCS systems do conform to financial management system requirements.
- c. No new non-conformance issues have been identified. The prior year non-conformance issue has been resolved.

## Management's Discussion and Analysis (Unaudited)

### D. Compliance with Section 803 (a) of the Federal Financial Management Improvement Act (FFMIA)

- a. NRCS management evaluated its financial management systems under FFMIA for the period ended June 30, 2021.
- b. Based on the results of our evaluation, Financial Management systems are in substantial compliance with Section 1. Federal Financial Management Systems Requirements.
- c. NRCS is not in substantial compliance with FFMIA as it relates to Section 2. Applicable Federal Accounting Standards and Section 3. Standard General Ledger at the Transaction Level. Both are repeat conditions.
- d. Deficiencies noted are identified on the attached Summary of Reportable Deficiencies chart.

Attachment

# Management's Discussion and Analysis (Unaudited)

## Fiscal Year 2021 Natural Resources Conservation Service Summary of Reportable Deficiencies

### Effectiveness of Internal Control over Operations (FMFIA – Section 2)

Federal Managers' Financial Integrity Act Section 2						
Categories	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Material Weakness	0					0
Significant Deficiency	0					0
Control Deficiency (Elevates to Department MW)	0					0

Identifier	Short Title	Weakness Category (MW, SD, CD)	Year Identified	Original Estimated Completion Date	Actual Completion Date	Revised Estimated Completion Date
Section 2						
None						

### Effectiveness Internal Control over Reporting (FMFIA – Section 2)

Internal Control over Financial Reporting Section 2						
Categories	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Material Weakness	3				1	4
Significant Deficiency	1				(1)	0
Control Deficiency (Elevates to Department MW)	0					0

Identifier	Short Title	Weakness Category (MW, SD, CD)	Year Identified	Original Estimated Completion Date	Actual Completion Date	Revised Estimated Completion Date
Section 2						
OIG# 10403-003-11 A-123, Appendix A Findings	Unliquidated Obligations	MW	2017	6/30/2018	N/A	9/30/2022
OIG# 10403-003-11 A-123, Appendix A Findings	Accrued Expenses	MW	2018	2/28/2019	N/A	9/30/2022
OIG Audit # 10403-0003-11	Entity Level Controls	MW	2019	9/30/2020	N/A	9/30/2021

## Management's Discussion and Analysis (Unaudited)

Multiple A-123 Findings	Maintaining, Controlling and Monitoring the FMFI General Ledger	MW (upgraded from a SD)	2020	9/30/2020	N/A	9/30/2023
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### Federal Financial Management Systems Financial Integrity Act – FFMIA Section 4

Federal Financial Management System (FMFLA-Section 4)							
Categories	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance	Responsible Office
Significant System Non-Conformance	1		(1)			0	N/A

Identifier	Short Title	Weakness Category (MW, SD, CD)	Year Identified	Original Estimated Completion Date	Actual Completion Date	Revised Estimated Completion Date
POA&M #29749	Separated employees retained access to Protracts Fund Manager and Financial Management Modernization Initiative (FMFI)	CD	2019	11/6/2020	6/15/2021	N/A



## Management's Discussion and Analysis (Unaudited)

### Compliance with Sections 803(a) of the Federal Financial Management Improvement Act (FFMIA)

Federal Financial Management Improvement Act - FFMIA-Section 803 (a)							
Categories	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance	Responsible Office
Section 1: Federal Financial Management System Requirements	0					0	N/A
Section 2: Applicable Federal Accounting Standards	1					1	FPAC Business Center-Financial Management Division
Section 3: Standard General Ledger at the Transaction Level	1					1	FPAC Business Center-Financial Management Division

Identifier	Short Title	Weakness Category (MW, SD, CD)	Year Identified	Original Estimated Completion Date	Actual Completion Date	Revised Estimated Completion Date
Section 1: Federal Financial Management Systems Requirements						
None						
Section 2: Applicable Federal Accounting Standards						
OIG# 10403-003-11	Non-Compliance with Federal Accounting Standards	N/A	2018	7/31/2019	N/A	9/30/2022
Section 3: Standard General Ledger at the Transaction Level						
OIG# 10403-003-11	Non-Compliance with USSGL	N/A	2018	7/31/2019	N/A	9/30/2022



## Management's Discussion and Analysis (Unaudited)

### Non-Compliance with Laws and Regulations (other than Anti-Deficiencies)

Identifier	Description of Violation	Year Identified	Original Estimated Completion Date	Actual Completion Date	Revised Estimated Completion Date	Mitigation Efforts
OIG Audit 11601-0001-12 and A-123 findings	Controls are not adequately designed to ensure compliance with Data Act Reporting for USAspending.gov	2020	9/30/2021	N/A	9/30/2022	Once the B/C/D2 files are submitted, FMFI now creates an automated error for the certification reporting process. Additionally, NRCS plans to document and create a reconciliation process between the financial statements/TB and then to the A/B/C/D1/D2 files.

### Anti-Deficiency Reporting

Description of Violation (Explanation of the violation, including (1) how it was identified, (2) year it was identified, (3) whether potential or confirmed, and (4) amount of the violation identified)					
Contact Name and Phone No.	Corrective Action Milestones	Estimated Completion Date (ECD)	Actual Completion Date	Revised ECD	Status/Reason for Change
None					

## Management's Discussion and Analysis (Unaudited)

Additionally, the following is currently pending opinion of the Office of General Counsel (OGC):



United States  
Department of  
Agriculture

**TO:** Lynn Moaney  
Deputy Chief Financial Officer

Natural  
Resources  
Conservation  
Service

**THROUGH:** Gloria Montaño Greene  
Deputy Under Secretary  
Farm Production and Conservation

1400  
Independence  
Avenue, SW  
Washington, DC  
20250-0581

**FROM:** Terry Cosby  
Chief  
Natural Resources Conservation Service

TERRY COSBY

Digitally signed by TERRY COSBY  
Date: 2021.10.08 15:10:26 -04'00'

Margo E. Erny  
Chief Financial Officer  
Farm Production and Conservation

MARGO ERNY

Digitally signed by MARGO  
ERNY  
Date: 2021.10.07 12:12:10  
-04'00'

**SUBJECT:** Natural Resources Conservation Service's FY 2021 Agency Financial  
Report Certification Statement – Bridge Memorandum as of September  
30, 2021

The Natural Resources Conservation Service (NRCS) is providing the following updates to the certification statement dated August 20, 2021 reported to the Office of the Chief Financial Officer as of June 30, 2021.

- A. A potential Anti-Deficiency (ADA) related to PEGA software licenses has been identified. A final decision from the Office of General Counsel (OGC) is pending regarding this potential ADA.

The details are below:

In September 2021, USDA's Office of the Chief Information Officer, using NRCS funds, renewed a contract for \$516,824 to obtain needed PEGA software licenses from TSPi. During this time period, USDA was also contacted by PEGA, and they stated that NRCS has been historically using more licenses than they had purchased. Efforts are under-way to determine the extent of the over-usage from 2013-2021. The potential ADA violation is being reviewed by OGC.

Contact Name and Phone No.	Corrective Action Milestones	Estimated Completion Date (ECD)	Actual Completion Date	Revised ECD	Status/Reason for Change
John Cunningham 202-720-0169	Pending final decision from OGC	12/1/2021	N/A	N/A	N/A

## **Management's Discussion and Analysis (Unaudited)**

### **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 (FMFI).

NRCS completed an assessment of the effectiveness of internal controls over operations, financial reporting and management systems for FY 2021. 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.

## Management's Discussion and Analysis (Unaudited)

The following business processes were reviewed:

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

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

Deficiency Area	Weakness Category	Year Identified	How Identified	Original Estimated Completion Date	Revised Completion Date	Actual Completion Date
Obligations/Unliquidated Obligations	Material Weakness	2013	External Audit and A-123 Appendix A Evaluations	9/30/2014	9/30/2022	N/A
Expenses/Accrued Expenses	Material Weakness	2015	External Audit and A-123 Appendix A Evaluations	2/28/2019	9/30/2022	N/A
Entity Level Controls	Material Weakness	2019	External Audit	9/30/2020	9/30/2021	N/A
Maintaining, Controlling, and Monitoring the FMMI General Ledger	Material Weakness	2019	A-123 Appendix A Evaluations	9/30/2020	9/30/2023	N/A

Table 9a: Correction and Deficiency Action Plan Status

### Federal Financial Management Improvement Act (FFMIA) of 1996

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

During FY 2021, NRCS evaluated its financial management systems to assess compliance with FFMIA. The deficiencies reported herein were identified during the FY 2021 audit.

NRCS is not compliant with Federal accounting standards and the USSGL at the transaction level as of September 30, 2021. The following items were not properly recorded in accordance to Federal accounting standards and the USSGL:

## Management's Discussion and Analysis (Unaudited)

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

The following table outlines the previous deficiencies noted and the status of the corrective action plans for the fiscal year ended September 30, 2021.

Deficiency	Year Originally Identified	Original Estimated Completion Date	Revised Estimated Completion Date
Non-Compliance with Federal Accounting Standards	2008	7/31/2009	11/30/2022
Non-Compliance with USSGL	2008	7/31/2009	11/30/2022

Table 9b: FFMIA Table of Deficiencies and Status of Corrective Action Plans

### Compliance with Laws and Regulations

As discussed previously, 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	Actual Completion Date	Revised Estimated Completion Date
Non-Compliance with FFMIA	2008	7/31/2009	N/A	9/30/2023
Non-Compliance with DATA Act	2020	9/30/2021	N/A	9/30/2023

Table 10: Non-Compliance with Laws and Regulations and Status of Corrective Action Plans

### Federal Information Security Modernization Act (FISMA) of 2014

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

The FPAC Business Center accomplished the following actions toward NRCS information security improvement during FY 2021, including:

- Ensured forty-three systems attained or maintained Authority to Operate (ATO) with FISMA requirements. Thirty-two systems were assessed during FY 2021. The remaining 11 systems will be assessed according to the Workload Leveling Plan schedule of early FY 2022;

## **Management's Discussion and Analysis (Unaudited)**

- Nineteen Plan of Action and Milestones (POA&Ms) were fully remediated in FY 2021. Remediation of another 4 POA&Ms is planned for FY 2022;
- Conducted three High-Valued Asset (HVA) annual ATO assessments during FY 2021;
- Conducted an annual A-123 audit for the HVA ProTracts Fundmanager system, resulting in no findings. The previous FY 2019 OIG POA&M has been resolved;
- Updated and enforced security standard operating procedures for all NRCS information systems;
- Reviewed proposed changes to information systems and applications to determine the impact on the security posture;
- Vulnerability assessment scanning of NRCS systems on a routine and ad-hoc basis to ensure compliance and to identify opportunities to reduce risk;
- Assisted project and portfolio management and software development teams with vulnerability remediation measures for cloud, web, and Federal applications/systems;
- Deployed and managed security tools to identify, protect, detect, respond, and recover NRCS applications/systems;
- Achieved 98 percent compliance with mandated Information Security Awareness Training (ISAT), which enhanced NRCS's awareness of cybersecurity threats;
- Performed assessments with the U.S. Department of Homeland Security and OIG on NRCS ProTracts and mitigated the findings, improving the security posture of the system; and
- Conducted informative briefings to Mission Delivery Agencies regarding identified risks, security findings, and how the findings would be addressed for their systems.



## Management's Discussion and Analysis (Unaudited)

### 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, 2021, there are nine audits for which final action has not yet been completed in accordance with the act.

### GAO/OIG Active Audits

The summary of GAO/OIG active audits for the year ended September 30, 2021 provides an overview of the external audit activities in progress within NRCS. After the final report has been provided to the agency, NRCS may have several audit recommendations to complete before the audit is officially closed.

Active Audit Name and Number	Start Date	Final Report Date
OIG – Conservation Stewardship Program-Partnership Control of Land – 50601-0005-23	9/16/2021	*
OIG – Emergency Watershed Protection Program – 10702-0001-23	9/10/2019	7/25/2021
OIG – COVID-19 Survey Agency Response – 50025-0001-23	5/28/2020	*
GAO – Federal Effects to Address Harmful Algal Bloom (HAB) Hypoxia	9/24/2020	*
GAO – Emergency Watershed Protection Program - 104326	6/4/2020	*
GAO – Free Association State Program Eligibility - 104436	1/25/2021	*
GAO – Civil Rights Mandate - 104716	3/8/2021	*
*: Audit in progress and final report release is pending		

Table 11: GAO/OIG Active Audits Summary

# Management's Discussion and Analysis (Unaudited)

## Streamlining Conservation Delivery

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

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

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

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

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

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

CD's first nation-wide, incremental release (Version 1, Release 1) (CD V1R1) occurred in July 2017. This integrated release included functionality for conservation technical assistance and financial assistance, with the supporting core services for integration with authoritative databases and legacy systems. Since 2017, NRCS has successfully implemented another 13 incremental CD releases to production and has integrated CD with over 10 mission delivery applications (e.g. CART, ProTracts, Document Management, FA Tracker, Farmers.gov, etc.).

As NRCS continuously evaluates changes in mission priorities and advances in the information

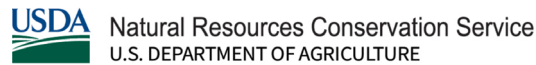
## **Management's Discussion and Analysis (Unaudited)**

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

The CDSI IT Investment and software development concluded September 30, 2020. However, CDSI O&M funding for Conservation Desktop will continue through FY2023.

## SECTION 2: FINANCIAL INFORMATION

### Consolidated Financial Statements



Natural Resources Conservation Service

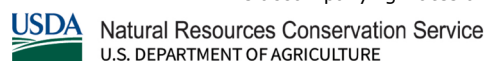
#### CONSOLIDATED BALANCE SHEET

As of September 30, 2021 and 2020

(in millions)

	2021	2020
<b>Assets:</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 14,000	\$ 13,961
Accounts Receivable, Net (Note 3)	13	18
Advances and Prepayments	7	4
Total Intragovernmental	14,020	13,983
With the Public:		
Accounts Receivable, Net (Note 3)	2	2
General Property, Plant, and Equipment, Net (Notes 4 and 8)	234	144
Advances and Prepayments	34	21
Total With the Public	270	167
<b>Total Assets</b>	<b>14,290</b>	<b>14,150</b>
Stewardship PP&E (Note 5)		
<b>Liabilities:</b>		
Intragovernmental:		
Accounts Payable	38	40
Other (Note 7)	19	19
Total Intragovernmental	57	59
With the Public:		
Accounts Payable	34	33
Federal Employee and Veteran Benefits Payable (Note 6)	111	109
Advances from Others and Deferred Revenue	16	15
Other Liabilities (Note 7)		
Accrued Grant Liabilities	782	892
Other	146	152
Total With the Public	1,089	1,201
<b>Total Liabilities</b>	<b>1,146</b>	<b>1,260</b>
Commitments and Contingencies (Note 9)		
<b>Net Position:</b>		
Unexpended Appropriations - Funds from Dedicated Collections	-	-
Unexpended Appropriations - Funds Other Than Those From Dedicated Collections	2,040	2,130
Total Unexpended Appropriations	2,040	2,130
Cumulative Results of Operations - Funds from Dedicated Collections (Note 10)	20	11
Cumulative Results of Operations - Funds Other Than Those From Dedicated Collections	11,084	10,749
Total Cumulative Results of Operations	11,104	10,760
Total Net Position:	13,144	12,890
<b>Total Liabilities and Net Position</b>	<b>\$ 14,290</b>	<b>\$ 14,150</b>

The accompanying Notes are an integral part of these consolidated financial statements



**Natural Resources Conservation Service**  
**Consolidated Statements of Net Cost**  
**For the Years Ended September 30, 2021 and 2020**  
**(In Millions)**

**Gross Program Costs:**

**Strategic Goal:**

**Strengthen the Stewardship of Private Lands through Technology and Research**

	2021	2020
<b>Farm Bill Programs</b>		
Gross Costs (Notes 11)	\$ 3,027	\$ 3,267
Less: Earned Revenue (Notes 1L and 11)	18	18
Net Program Costs	3,009	3,249
<b>Conservation Operations Program</b>		
Gross Costs (Notes 11)	863	903
Less: Earned Revenue (Notes 1L and 11)	22	19
Net Program Costs	841	884
<b>Watershed and Flood Prevention Operations Program</b>		
Gross Costs (Notes 11)	309	268
Less: Earned Revenue (Notes 1L and 11)	6	16
Net Program Costs	303	252
<b>Watershed Rehabilitation Program</b>		
Gross Costs (Notes 11)	41	33
Less: Earned Revenue (Notes 1L and 11)	3	6
Net Program Costs	38	27
<b>Other Programs</b>		
Gross Costs (Notes 11)	7	4
Less: Earned Revenue (Notes 1L and 11)	-	-
Net Program Costs	7	4
<b>Total Gross Costs</b>	4,247	4,475
<b>Less: Total Earned Revenue</b>	49	59
<b>Net Cost of Operations</b>	\$ 4,198	\$ 4,416

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

Natural Resources Conservation Service  
**Consolidated Statement of Changes in Net Position**  
 For the Years Ended September 30, 2021 and 2020  
 (in millions)

	2021			2020		
	Funds from Dedicated Collections (Note 10)	All Other Funds	Total	Funds from Dedicated Collections (Note 10)	All Other Funds	Total
<b>Unexpended Appropriations:</b>						
Beginning Balance	\$ -	\$ 2,130	\$ 2,130	\$ -	\$ 2,281	\$ 2,281
Appropriations Received	-	1,034	1,034	-	1,029	1,029
Appropriations Transferred in/out	-	-	-	-	(25)	(25)
Other Adjustments	-	(7)	-	-	(44)	(44)
Appropriations Used	-	(1,117)	(1,117)	-	(1,111)	(1,111)
Net Change in Unexpended Appropriations	-	(90)	(90)	-	(151)	(151)
<b>Total Unexpended Appropriations: Ending</b>	<b>\$ -</b>	<b>\$ 2,040</b>	<b>\$ 2,040</b>	<b>\$ -</b>	<b>\$ 2,130</b>	<b>\$ 2,130</b>
<b>Cumulative Results from Operations:</b>						
Beginning Balances	\$ 11	\$ 10,749	\$ 10,760	\$ 7	\$ 9,131	\$ 9,138
Other Adjustments	-	(205)	(205)	-	(307)	(307)
Appropriations Used	-	1,117	1,117	-	1,111	1,111
Transfers-In/Out Without Reimbursement (+/-)	12	3,528	3,540	5	5,150	5,155
Imputed Financing	-	90	90	-	79	79
Net Cost of Operations (+/-)	(3)	(4,195)	(4,198)	(1)	(4,415)	(4,416)
Net Change in Cumulative Results of Operations	\$ 9	\$ 335	\$ 344	\$ 4	\$ 1,618	\$ 1,622
<b>Cumulative Results of Operations: Ending</b>	<b>\$ 20</b>	<b>\$ 11,084</b>	<b>\$ 11,104</b>	<b>\$ 11</b>	<b>\$ 10,749</b>	<b>\$ 10,760</b>
<b>Net Position</b>	<b>\$ 20</b>	<b>\$13,124</b>	<b>\$13,144</b>	<b>\$ 11</b>	<b>\$ 12,879</b>	<b>\$12,890</b>

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



Natural Resources Conservation Service  
**Combined Statements of Budgetary Resources**  
 For the Years Ended September 30, 2021 and 2020  
 (in millions)

	2021	2020
<b>Budgetary Resources:</b>		
Unobligated balance from prior year budget authority, net	\$ 6,621	\$ 6,333
Appropriations (discretionary and mandatory)	4,358	5,871
Spending authority from offsetting collections (discretionary and mandatory)	68	140
<b>Total Budgetary Resources</b>	<b>\$ 11,047</b>	<b>\$ 12,344</b>
<b>Status of Budgetary Resources:</b>		
New obligations and upward adjustments (total)	\$ 4,850	\$ 6,212
Unobligated balance, end of year:		
Apportioned, unexpired accounts	3,534	3,471
Unapportioned, unexpired accounts	8	19
Unexpired unobligated balance, end of year	3,542	3,490
Expired unobligated balance, end of year	2,655	2,642
Total unobligated balance, end of year	6,197	6,132
<b>Total Budgetary Resources</b>	<b>\$ 11,047</b>	<b>\$ 12,344</b>
<b>Outlays, Net</b>		
Outlays, net (discretionary and mandatory)	\$ 4,325	\$ 4,278
Distributed offsetting receipts	(1)	(1)
<b>Agency Outlays, net (discretionary and mandatory)</b>	<b>\$ 4,324</b>	<b>\$ 4,277</b>

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

# Notes to the Consolidated Financial Statements for the Years Ended September 30, 2021 and 2020

## **Notes to the Consolidated Financial Statements**

### **Note 1 – Significant Accounting Policies**

#### *A. Reporting Entity*

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

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

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

#### *Discretionary Programs*

NRCS has discretionary funding appropriated by Congress to provide technical and financial assistance under the Private Lands Conservation Operations, Watershed and Flood Prevention Operations, Watershed Rehabilitation, and Water Bank programs. There is also mandatory funding provided under the Watershed and Flood Prevention Operations and Watershed Rehabilitation programs.

## Notes to the Consolidated Financial Statements for the Years Ended September 30, 2021 and 2020

### *Mandatory Programs*

The Food Security Act of 1985, as amended by the Agriculture Improvement Act of 2018, (P.L. 115-334, 2018 Farm Bill) provides authority for NRCS to administer mandatory conservation program activities with funding provided through Commodity Credit Corporation (CCC) borrowing authority. The CCC is a Government-owned and operated entity that was created to stabilize, support, and protect farm income and prices. Initially incorporated in 1933, the CCC was transferred to the USDA in 1939, and reincorporated on July 1, 1948 as a federal corporation within USDA. The authorizing language in the 2018 Farm Bill specified that the funds, facilities, and authorities of CCC be used to administer various mandatory conservation programs.

NRCS receives mandatory funding under the 2018 Farm Bill to provide technical and financial assistance for the following programs:

- Environmental Quality Incentives Program (EQIP);
- Conservation Stewardship Program (CSP);
- Agricultural Conservation Easement Program (ACEP);
- Regional Conservation Partnership Program (RCPP) ;
- Feral Swine Eradication and Control Pilot Program;
- Watershed Protection and Flood Prevention;
- Voluntary Public Access and Habitat Incentive Program and;
- Conservation Reserve Program (Technical Assistance only).

In addition, NRCS receives mandatory funding under Section 524(b) of the Federal Crop Insurance Act (7 U.S.C 1524(b)) for the Agricultural Management Assistance Program. The funding for these programs is received from CCC through quarterly non-expenditure transfers for the estimated obligations to be incurred through the end of each quarter. In addition to the programs mentioned above, NRCS provides Conservation Innovation Grants (CIG), which are funded through EQIP. CIG is a voluntary program that enables NRCS to work with other public and private entities to accelerate technology transfer and adoption of promising technologies and approaches to address some of the Nation's most pressing natural resource concerns. Authorized funding for the mandatory Farm Bill programs funded by CCC is \$3.5 and \$5.2 billion, respectively, as of September 30, 2021 and 2020.

### *B. Basis of Presentation and Accounting*

The Consolidated Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and the Combined Statements of Budgetary Resources (hereinafter referred to as the "consolidated financial statements") and related notes are presented to report the assets, liabilities and net position; net costs; changes in net position; and budgetary resources of NRCS. The consolidated financial statements have been prepared from the books and records of NRCS in accordance with GAAP as promulgated by the Federal Accounting Standards Advisory Board (FASAB).

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

## Notes to the Consolidated Financial Statements for the Years Ended September 30, 2021 and 2020

### *C. Classified Activities*

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

### *D. Fund Balance with Treasury*

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

### *E. Accounts Receivable, Net*

Amounts owed to NRCS are recorded in the Financial Management Modernization Initiative (FMMI) financial system, which issues billing documents, and manages accounts receivable activity. The collections are deposited at a USDA lockbox managed by the USDA Chief Financial Officer, Financial Services Division. SFFAS No. 1 requires separate reporting of public and intra-governmental receivables, and to adjust their book value to net realizable value based upon expected collectability. An allowance for doubtful accounts is recorded quarterly for receivables for the amount of receivables estimated to be uncollectible.

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

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

### *G. Advances to Others*

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

## Notes to the Consolidated Financial Statements for the Years Ended September 30, 2021 and 2020

### *H. Liabilities*

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

#### *I. Workers Compensation Liability*

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

#### *J. Employee Annual, Sick, and Other Leave*

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

#### *K. Pension and Other Retirement Benefits*

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

## **Notes to the Consolidated Financial Statements for the Years Ended September 30, 2021 and 2020**

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

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

### *L. Use of Estimates*

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

### *M. Funds from Dedicated Collections*

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

### *N. Reclassifications*

Certain prior year amounts have been reclassified for consistency with the current year presentation. The Balance Sheet, Other Liabilities and Reconciliation of Net Cost to Net Outlays have been reclassified in accordance with OMB Circular A-136, revised August 10, 2021.

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

The Unavailable Unobligated balances are amounts that: 1) due to their expired status are not available for new obligation and therefore cannot be disbursed, or 2) are unexpired but have not yet been apportioned for execution purposes.



## Notes to the Consolidated Financial Statements for the Years Ended September 30, 2021 and 2020

<b>Status of Fund Balance with Treasury (in millions)</b>	<u>2021</u>	<u>2020</u>
Unobligated Balance:		
Available	\$ 3,534	\$ 3,472
Unavailable	2,663	2,661
Obligated balance not yet disbursed	7,765	7,791
Non-budgetary Fund Balance with Treasury	<u>38</u>	<u>37</u>
<b>Total</b>	<u>\$ 14,000</u>	<u>\$ 13,961</u>

Table 12: Status of Fund Balance with Treasury

### **Note 3 – Accounts Receivable, Net**

Intragovernmental accounts receivable represent amounts due under reimbursable and cooperative agreements with federal entities for services provided by NRCS under the Economy Act, 31 U.S.C. §1535, Public Law 101-646, 16 U.S.C. 3951, and Clean Water Act 118 (C). Accounts Receivable with the public is comprised primarily of cost share agreements with agricultural producers and state and local governments owed to NRCS for providing financial and technical assistance on conservation projects. An allowance for uncollectible accounts is recorded using an aging methodology based on an analysis of historical collections and write-offs.

#### **Accounts Receivable (in millions)**

	<u>2021</u>	<u>2020</u>
<b>Intragovernmental</b>		
Total Intragovernmental Receivables	<u>\$ 13</u>	<u>\$ 18</u>
<b>Public</b>		
Gross Receivables	3	3
Allowance for Doubtful Accounts	<u>(1)</u>	<u>(1)</u>
Total Public Receivables, Net	<u>\$ 2</u>	<u>\$ 2</u>
<b>Total Receivables, Net</b>	<u>\$ 15</u>	<u>\$ 20</u>

Table 13: Accounts Receivable

**Notes to the Consolidated Financial Statements  
for the Years Ended September 30, 2021 and 2020**

**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.

# Notes to the Consolidated Financial Statements for the Years Ended September 30, 2021 and 2020

## General Property, Plant and Equipment (PP&E), Net (in millions)

	Estimated Useful Life (Years)	Cost	Accumulated Depreciation and Amortization	Net Book Value
<b>FY 2021</b>				
<b>Personal Property:</b>				
Equipment	5 - 20	\$ 117	\$ 80	\$ 37
Internal Use Software	5	294	125	169
Internal Use Software in Development	0	18	-	18
<b>Total Personal Property</b>		<b>\$ 429</b>	<b>\$ 205</b>	<b>\$ 224</b>
<b>Real Property:</b>				
Land and Land Rights		\$ 1	\$ -	\$ 1
Buildings, Improvements and Renovations	15 - 30	17	11	6
Other Structures and Facilities	15 - 30	4	4	-
Leasehold Improvements	2	2	-	2
Assets Under Capital Lease	Varies	3	2	1
<b>Total Real Property</b>		<b>\$ 27</b>	<b>\$ 17</b>	<b>\$ 10</b>
<b>Total</b>		<b>\$ 456</b>	<b>\$ 222</b>	<b>\$ 234</b>
<b>FY 2020</b>				
<b>Personal Property:</b>				
Equipment	5 - 20	\$ 101	\$ 76	\$ 25
Internal Use Software	5	184	91	93
Internal Use Software in Development	0	17	-	17
<b>Total Personal Property</b>		<b>302</b>	<b>167</b>	<b>135</b>
<b>Real Property:</b>				
Land and Land Rights		\$ 1	\$ -	\$ 1
Buildings, Improvements and Renovations	15 - 30	15	11	4
Other Structures and Facilities	15 - 30	7	4	3
Assets Under Capital Lease	Varies	3	2	1
<b>Total Real Property</b>		<b>\$ 26</b>	<b>\$ 17</b>	<b>\$ 9</b>
<b>Total</b>		<b>\$ 328</b>	<b>\$ 184</b>	<b>\$ 144</b>

Table 14: General PP&E

Total PP&E and Accumulated Depreciation	Net PP&E
Balance Beginning of Year	\$ 144
Capitalized Acquisitions	132
Dispositions	3
Revaluations	-
Depreciation Expense	(45)
Balance at End of Year	<u>\$ 234</u>

Table 15: Total 2021 PP&E and Accumulated Depreciation, Net

## Notes to the Consolidated Financial Statements for the Years Ended September 30, 2021 and 2020

### **Note 5 – Stewardship PP&E**

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

Please refer to the Required Supplemental Information section for information on Deferred Maintenance.

#### *Stewardship Land*

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

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

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

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

For the purpose of reporting, all easements where NRCS (or a variant of the United States administered through NRCS authorities) is listed as a grantee of the easement are included in the agency's stewardship land count. The NRCS stewardship land easements include conservation easements enrolled through program authorities and other easements administered by NRCS.

## Notes to the Consolidated Financial Statements for the Years Ended September 30, 2021 and 2020

### *Heritage Assets*

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

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

The following table provides a count of the NRCS heritage asset and conservation easements as of September 30, 2021 and 2020.

#### **Stewardship Property, Plant, and Equipment, Net**

(in numbers)

	<b>Beginning Balance</b>	<b>New Assets</b>	<b>Withdrawn Assets</b>	<b>Ending Balance</b>
FY 2021				
<b>Heritage Assests</b>				
Research Centers	1	0	0	1
<b>Stewardship Land</b>				
Conservation Easements	18,949	259	1	19,207
FY 2020				
<b>Heritage Assests</b>				
Research Centers	1	0	0	1
<b>Stewardship Land</b>				
Conservation Easements	18,641	308	0	18,949

Table 16: Stewardship PP&E

### **Note 6 – Liabilities Not Covered by Budgetary Resources**

By law, federal agencies cannot make outlays unless Congress has authorized and appropriated funds and OMB has provided an apportionment. A portion of the liabilities reported on the Balance Sheets are currently not funded by budgetary resources. Examples include unfunded employee costs for annual leave earned but unused and FECA benefits that are accrued to cover liabilities associated with employee deaths, disabilities, medical issues, and other costs for which funds have not been appropriated. 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.

# Notes to the Consolidated Financial Statements for the Years Ended September 30, 2021 and 2020

## Liabilities Not Covered by Budgetary Resources (in millions)

	2021	2020
Intragovernmental:		
Unfunded FECA Liability	\$ 6	\$ 6
<b>Total Intragovernmental</b>	<b>\$ 6</b>	<b>\$ 6</b>
Unfunded Leave	\$ 79	\$ 77
Federal Employee and Veterans' Benefits	32	32
<b>Total liabilities not covered by budgetary resources</b>	<b>\$ 117</b>	<b>\$ 115</b>
Total liabilities covered by budgetary resources	\$ 1,015	\$ 1,128
Total liabilities not requiring budgetary resources	14	17
<b>Total Liabilities</b>	<b>\$ 1,146</b>	<b>\$ 1,260</b>

Table 17: Liabilities Not Covered by Budgetary Resources

## Note 7 – 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, technical services, and certain accrued payroll liabilities.

Other Liabilities (in millions)		2021		
		Non -Current	Current	Total
<b>Intragovernmental</b>				
Employer Contributions and Payroll Taxes		-	15	15
Unfunded FECA Liability		3	3	6
Custodial Liabilities		-	-	-
Liability for Deposit Funds and Clearing Accounts		-	(2)	(2)
<b>Subtotal Intragovernmental</b>		<b>\$ 3</b>	<b>\$ 16</b>	<b>\$ 19</b>
<b>With the Public</b>				
Accrued Liabilities for Grants and Agreements	\$	-	782	782
Accrued Liabilities for Technical and Other Services		-	95	95
Accrued Liabilities for Equipment		-	2	2
Accrued Funded Payroll and Leave		-	43	43
Accrued Liabilities for Land and Structures		-	5	5
Accrued Liabilities for Miscellaneous Services		-	-	-
Capital Lease Liability		1	-	1
<b>Subtotal With the Public</b>		<b>\$ 1</b>	<b>\$ 927</b>	<b>\$ 928</b>
<b>Total Other Liabilities</b>		<b>\$ 4</b>	<b>\$ 943</b>	<b>\$ 947</b>

Other Liabilities (in millions)		2020		
		Non-Current	Current	Total
<b>Intragovernmental</b>				
Employer Contributions and Payroll Taxes		-	12	12
Unfunded FECA Liability		3	3	6
Custodial Liabilities		-	1	1
Liability for Deposit Funds and Clearing Accounts		-	-	-
<b>Subtotal Intragovernmental</b>		<b>\$ 3</b>	<b>\$ 16</b>	<b>\$ 19</b>
<b>With the Public</b>				
Accrued Liabilities for Grants and Agreements	\$	-	892	892
Accrued Liabilities for Technical and Other Services		-	106	106
Accrued Liabilities for Equipment		-	-	-
Accrued Funded Payroll and Leave		-	37	37
Accrued Liabilities for Land and Structures		-	6	6
Accrued Liabilities for Miscellaneous Services		1	1	2
Capital Lease Liability		1	-	1
<b>Subtotal With the Public</b>		<b>\$ 2</b>	<b>\$ 1,042</b>	<b>\$ 1,044</b>
<b>Total Other Liabilities</b>		<b>\$ 5</b>	<b>\$ 1,058</b>	<b>\$ 1,063</b>

Table 18: Other Liabilities



# Notes to the Consolidated Financial Statements for the Years Ended September 30, 2021 and 2020

## Note 8 – 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.

	2021
<b>Entity as Lessee: Capital Leases (in millions)</b>	
Summary of Assets Under Capital Lease	
Land and Buildings	\$ 3
Less: Accumulated Amortization	(2)
<b>Total Assets Under Capital Lease</b>	<b>\$ 1</b>

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

### FY 2021

#### Future Payments Due for Capital Leases - Land and Buildings (in millions)

Fiscal Year	Federal	Non-Federal
Year 1 (2022)	\$ -	\$ 1
Year 2 (2023)	-	-
Year 3 (2024)	-	-
Year 4 (2025)	-	-
Year 5 (2026)	-	-
After 5 Years	-	-
<b>Total Future Lease Payments</b>	<b>\$ -</b>	<b>\$ 1</b>
Less: Imputed Interest	\$ -	-
Less: Executory Costs	\$ -	-
<b>Net Capital Lease Liability</b>	<b>\$ -</b>	<b>\$ 1</b>

Table 19: Capital Leases Summary and Future Payments

# Notes to the Consolidated Financial Statements for the Years Ended September 30, 2021 and 2020

**FY 2021**  
**Future Payments Due for**  
**Operating Leases - Land and Buildings**  
(in millions)

Fiscal Year	Federal Non-Cancellable	Non-Federal Non-Cancellable	Federal Cancellable	Non-Federal Cancellable	Total
Year 1 (2022)	\$ 11	\$ 11	\$ 19	\$ 19	\$ 60
Year 2 (2023)	-	-	25	19	\$ 44
Year 3 (2024)	-	-	22	10	\$ 32
Year 4 (2025)	-	-	20	6	\$ 26
Year 5 (2026)	-	-	18	4	\$ 22
After 5 Years	-	-	54	9	\$ 63
<b>Total Future Lease Payments</b>	<b>\$ 11</b>	<b>\$ 11</b>	<b>\$ 158</b>	<b>\$ 67</b>	<b>\$ 247</b>

Table 20: Total Future Payments for Operating Leases

## Note 9 – Commitments and Contingencies

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

For the years ending September 30, 2021 and 2020, no pending legal matters or conditions, situations, or set of circumstances existed that were considered probable or reasonably possible, which require recognition (accrual) in the Balance Sheets or require further disclosure.

## Note 10 – Funds from Dedicated Collections

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

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

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

# Notes to the Consolidated Financial Statements for the Years Ended September 30, 2021 and 2020

	Damage Assessment and Restoration Revolving Fund	Miscellaneous Contributed Funds	Total Funds from Dedicated Collections
<b>Balance Sheet as of September 30, 2021 (in millions)</b>			
<b>Assets:</b>			
Intragovernmental:			
Fund Balance with Treasury	\$ 21	\$ -	\$ 21
Total Intagovernmental Assets	\$ 21	\$ -	\$ 21
<b>Total Assets</b>	<b>\$ 21</b>	<b>\$ -</b>	<b>\$ 21</b>
<b>Liabilities:</b>			
With the Public:			
Other Liabilities	\$ 1	\$ -	\$ 1
<b>Net Position</b>			
Cumulative Results of Operations	\$ 20	\$ -	\$ 20
<b>Total Liabilities and Net Position</b>	<b>\$ 21</b>	<b>\$ -</b>	<b>\$ 21</b>

	Damage Assessment and Restoration Revolving Fund	Miscellaneous Contributed Funds	Total Funds from Dedicated Collections
<b>Statement of Changes in Net Position for the Period Ended September 30, 2021 (in millions)</b>			
<b>Cumulative Results of Operations:</b>			
Beginning Balance	\$ 10	\$ 1	\$ 11
Transfers in/out without Reimbursement, Net	12	-	12
Net Cost of Operations	(3)	-	(3)
Net Change	9	-	9
Cumulative Results of Operations	\$ 19	\$ 1	\$ 20
<b>Net Position</b>	<b>\$ 19</b>	<b>\$ 1</b>	<b>\$ 20</b>

	Damage Assessment and Restoration Revolving Fund	Miscellaneous Contributed Funds	Total Funds from Dedicated Collections
<b>Statement of Net Cost for the Period Ended September 30, 2021 (in millions)</b>			
Gross Program Costs	\$ 3	\$ -	\$ 3
Less: Earned revenues	-	-	-
<b>Net Program Costs</b>	<b>\$ 3</b>	<b>\$ -</b>	<b>\$ 3</b>

Table 21: Funds from Dedicated Collections - FY 2021

# Notes to the Consolidated Financial Statements for the Years Ended September 30, 2021 and 2020

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

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

	Damage Assessment and Restoration Revolving Fund	Miscellaneous Contributed Funds	Total Funds from Dedicated Collections
<b>Statement of Net Cost for the Period Ended September 30, 2020 (in millions)</b>			
Gross Program Costs	\$ 1	\$ -	\$ 1
Less: Earned revenues	-	-	-
<b>Net Program Costs</b>	<b>\$ 1</b>	<b>\$ -</b>	<b>\$ 1</b>

Table 22: Funds from Dedicated Collections - FY 2020

# Notes to the Consolidated Financial Statements for the Years Ended September 30, 2021 and 2020

## Note 11 – Inter-Entity Costs

NRCS reports the full cost of products and services generated from the consumption of resources. Unless otherwise noted, full cost is the total amount of direct and indirect resources used to produce a product or provide a service. Goods and services are received from other federal agencies at no cost or at a cost less than the full cost to the providing federal entity. Consistent with Federal accounting standards, certain costs of the providing entity that are not fully reimbursed are recognized as imputed cost in the Statement of Net Cost and are offset by imputed revenue in the Statement of Changes in Net Position. Such imputed costs and revenues relate to business-type activities, employee benefits, and claims to be settled by the Treasury Judgment Fund. However, unreimbursed costs of goods and services other than those identified above are not included in our consolidated financial statements.

NRCS recognizes the amount of accrued pension and postretirement benefit expenses for current employees as imputed financing costs. The assets and liabilities associated with such benefits are the responsibility of the administering agency, OPM. Any amounts paid from the Treasury Judgment Fund in settlement of claims or court assessments against NRCS are also recognized as imputed financing. NRCS recognized imputed financing of \$90 million and \$79 million, respectively, for the periods ending September 30, 2021 and 2020 for accrued pension and postretirement benefit expense and the Treasury Judgment Fund.

## Note 12 – Net Adjustments to Unobligated Balance, Brought Forward, October 1

NRCS's Unobligated Balance Brought Forward from the prior fiscal year has been adjusted for recoveries of prior year unpaid obligations and other adjustments such as cancelled authority. Unobligated Balance Brought Forward, October 1 as of September 30, 2021 and 2020, were as follows:

	2021	2020
Prior year total unobligated balance	\$ 6,132	\$ 5,942
Recoveries of Prior Year Obligations	\$ 482	\$ 453
Other Adjustments	\$ 7	\$ (62)
<b>Unobligated balance from prior year budget authority, net</b>	<b>\$ 6,621</b>	<b>\$ 6,333</b>

Table 23: Net Adjustments to Unobligated Balance, Brought Forward, October 1

## Note 13 – Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders were \$7,053 and \$6,934, respectively, for the years ended September 30, 2021 and 2020.

FY 2021 Undelivered Orders (in millions)	Federal	Non-Federal
Paid	\$ 7	\$ 34
Unpaid	313	6,699
<b>Total</b>	<b>\$ 320</b>	<b>\$ 6,733</b>

FY 2020 Undelivered Orders (in millions)	Federal	Non-Federal
Paid	\$ 4	\$ 21
Unpaid	278	6,631
<b>Total</b>	<b>\$ 282</b>	<b>\$ 6,652</b>

Table 24: Undelivered Orders

## **Notes to the Consolidated Financial Statements for the Years Ended September 30, 2021 and 2020**

### **Note 14 – 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 2021 or 2020 using the unobligated balances from the expired years.

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

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

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

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

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



## Notes to the Consolidated Financial Statements for the Years Ended September 30, 2021 and 2020

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

The 2014 Farm Bill changed the period of availability for most of the mandatory conservation programs (except the Agriculture Management Assistance program) from one-year to no-year funding. Thus, extended disbursing authority will no longer be needed for these funds in FY 2019 and beyond. In addition, the 2014 Farm Bill repealed five mandatory conservation programs (Agricultural Water Enhancement Program, Farm and Ranch Lands Protection Program, Grassland Reserve Program, Wildlife Habitat Incentive Program, and Wetlands Reserve Program) and restored the authority to obligate expired unobligated balances from FYs 2009 through 2013 for these five repealed programs. These funds are to be used to complete implementation of contracts and easements entered into prior to the repeal of the programs.

### **Note 15 – Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government**

The differences between the FY 2020 SBR and the FY 2020 actual numbers presented in the FY 2022 Budget of the United States Government are summarized in the table below. The President's Budget with actual numbers for FY 2021 has not yet been published. Upon release of the FY 2023 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.

	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
<b>FY 2020 Budget Reconciliation (in millions)</b>				
Statement of Budgetary Resources	\$ 12,344	\$ 6,212	\$ (1)	\$ 4,278
<b>Reconciling Items</b>				
Expired Accounts not reflected in the Budget	(2,665)	(21)		
Beginning Balance Adjustments (Note 14)	7	7		
Other	1			1
<b>Budget of the US Government</b>	<b>\$ 9,687</b>	<b>\$ 6,198</b>	<b>\$ (1)</b>	<b>\$ 4,279</b>

Table 25: Explanation of Differences Between SBR and the Budget of the US Government

### **Note 16 – Reconciliation of Net Cost to Net Outlays**

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

## **Notes to the Consolidated Financial Statements for the Years Ended September 30, 2021 and 2020**

be paid in the future, but also to assure integrity between budgetary and financial accounting information. The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays.

In FY2021, the reconciling differences are from components of the net costs that are not part of the net outlays. This consists of activities that result in expense or revenue recognition which do not involve a cash outlay. This comprises a net of \$2.7 million from the disposition of assets.

# Notes to the Consolidated Financial Statements for the Years Ended September 30, 2021 and 2020

FY 2021

Reconciliation of Net Cost to Net Outlays

	Intragovernmental \$	With the Public \$	Total \$
<b>Net Operating Cost - Statement of Net Cost</b>	<b>645</b>	<b>3,553</b>	<b>\$4,198</b>
<b>Components of Net Operating Costs Not Part of Budgetary Outlays:</b>			
Property, Plant and Equipment Depreciation	-	(45)	(45)
Property, Plant and Equipment Disposal & Revaluation	-	3	3
Other	-	-	-
Increase/(Decrease) in Assets:			
Accounts Receivable	(5)	-	(5)
Other Assets	3	13	16
(Increase)/Decrease in Liabilities Not Effecting Budgetary Outlays:			
Accounts Payable	-	(2)	(2)
Salaries and Benefits	-	(1)	(1)
Other Liabilities	2	116	118
Other Financing Sources:			
Federal employee Retirement Costs paid by OPM and Imputed to the Agency (Note 13)	(90)	-	(90)
<b>Total Components of Net Operating Cost not part of Budgetary Outlays:</b>	<b>(90)</b>	<b>84</b>	<b>(6)</b>
<b>Components of Net Outlays not part of Net Cost:</b>			
Acquisition of Capital Assets	-	132	132
Other	-	-	-
<b>Total Components of Net Outlays not part of Net Cost:</b>	<b>-</b>	<b>132</b>	<b>132</b>
<b>Net Outlays</b>	<b>\$ 555</b>	<b>\$ 3,769</b>	<b>\$ 4,324</b>
<b>Related Amounts on the Statement of Budgetary Resources</b>			
Outlays, Gross			\$ 4,325
Distributed Offsetting Receipts			(1)
<b>Outlays, Net</b>			<b>\$ 4,324</b>

FY 2020

Reconciliation of Net Cost to Net Outlays

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

Table 26: Reconciliation of Budgetary Resources Obligated to the Net Cost of Operations

**Notes to the Consolidated Financial Statements  
for the Years Ended September 30, 2021 and 2020**

**Note 17 – COVID 19**

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

**Note 18 – Subsequent Events**

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

## Required Supplementary Information (Unaudited)

### **SECTION 3: REQUIRED SUPPLEMENTARY INFORMATION** **(Unaudited)**

#### **Condition of Heritage Assets and Stewardship Lands**

##### **Heritage Assets**

In 1997, the Tucson Plant Materials Center in Tucson, Arizona was placed on the National Register of Historic Places. The PMC Office and what is now the Field Office/Conference Room along with 5 acres of surrounding areas comprise the historically significant parts of the Tucson PMC. 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 as of September 30, 2021 and 2020 (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 4<sup>th</sup> quarter of the fiscal year.

## Required Supplementary Information (Unaudited)

Stewardship Easement Condition Status				
FY2021 (in numbers)	Condition	Description	Easements Meeting the Condition	Percentage
	Green	Easements are maintained in accordance with all terms and conditions	14,875	77%
	Yellow	Easements with minor administrative issues requiring corrective actions to fully comply with all terms and conditions	2,021	11%
	Red	Easements with documented violations that require corrective action	1,948	10%
	Not Assessed	Easements that did not require monitoring, had an undetermined condition, or were closed in FY21	363	2%
			<b>19,207</b>	<b>100%</b>
FY2020 (in numbers)	Condition	Description	Easements Meeting the Condition	Percentage
	Green	Easements are maintained in accordance with all terms and conditions	14,722	78%
	Yellow	Easements with minor administrative issues requiring corrective actions to fully comply with all terms and conditions	3,087	16%
	Red	Easements with documented violations that require corrective action	839	4%
	Not Assessed	Easements that did not require monitoring, had an undetermined condition, or were closed in FY20	301	2%
			<b>18,949</b>	<b>100%</b>

Table 27: Stewardship Easement Condition Status

## Required Supplementary Information (Unaudited)

### **Deferred Maintenance and Repairs**

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

The NRCS portfolio of real property assets includes 28 sites with owned land or buildings. There are 24 PMCs, which are research farms consisting of an office building, greenhouses, service buildings, and warehouse and storage facilities. Other features of PMCs typically include equipment shelters, irrigation water wells, pumps or distribution systems, paved or gravel surfaces, and fuel storage and pumps. Four additional sites include one small NRCS field office, one storage facility, and two unmanned relay stations for snow survey and climate data.



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

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



## **Required Supplementary Information (Unaudited)**

### **Deferred Maintenance Policies**

Deferred maintenance estimates for assets are based on condition surveys performed on a five-year maximum revolving schedule. NRCS conducted condition surveys in fiscal years 2014 and 2018. NRCS maintains an inventory and description of all owned facilities and structures in USDA's Corporate Property Automated Information System (CPAIS).

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

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

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

## Required Supplementary Information (Unaudited)

### Estimated Deferred Maintenance

The dollar amounts in the following table include costs to return assets with deferred maintenance to acceptable condition as of September 30, 2021 and 2020.

Estimated Deferred Maintenance FY 2021

Asset Class	Overall Condition	Cost to Return to Acceptable Condition (dollars)		
		Beginning Balance	Ending Balance	Change in Costs from Beginning to Ending Balance (dollars)
Office Buildings	critical-good	\$ 397,185	\$ 360,332	\$ (36,853)
Greenhouses	critical-good	173,643	173,609	(34)
Service Buildings	critical-good	228,263	226,901	(1,362)
Warehouse/Storage Buildings	critical-good	395,080	390,030	(5,050)
Other Buildings	critical-good	129,815	129,704	(111)
Irrigation Systems	poor-good	21,173	21,173	-
Other Constructed Structures and Features	critical-good	120,083	136,125	16,042
<b>Total</b>		<b>\$ 1,465,242</b>	<b>\$ 1,437,874</b>	<b>\$ (27,368)</b>

Estimated Deferred Maintenance FY 2020

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

Table 28: Deferred Maintenance, Totals By Asset Class

The change in cost to return assets to acceptable condition during FY 2021 the period reflects deferred maintenance that has been addressed during this period and new asset components that reached the end of their life in fiscal year 2021.

## Required Supplementary Information (Unaudited)

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

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

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

The overall condition of major asset classes varies depending on the location, age, and type of property. The following table displays how NRCS defines asset condition on the basis of critical maintenance needed in the current year and the number of assets in each category for the years ending September 30, 2021 and 2020.

FY 2021		
<b>Condition Index</b>	<b>Condition Rating</b>	<b>Number of Assets</b>
Greater than 95.00	good	361
Between 90.00 and 94.99	fair	31
Between 70.00 and 89.99	poor	32
Less than 70.00	critical	16
<b>Total</b>		<b>440</b>
FY 2020		
<b>Condition Index</b>	<b>Condition Rating</b>	<b>Number of Assets</b>
Greater than 95.00	good	366
Between 90.00 and 94.99	fair	29
Between 70.00 and 89.99	poor	35
Less than 70.00	critical	15
<b>Total</b>		<b>445</b>

Table 29: Condition, Definition, and Characterization of Assets

## **Required Supplementary Information (Unaudited)**

NRCS manages its buildings in compliance with regulations and guidance from GSA, USDA, and Executive Orders. Buildings shall also comply with applicable codes such as the National Life Safety Code, Occupational Safety and Health Administration rules, and the Architectural Barriers Act Accessibility Standard, and other regulatory and compliance requirements as determined by condition surveys. NRCS applies these regulations and requirements consistently to all major classes of PP&E. Guidelines used may vary from the norm based on the mission of each facility and use of each asset. NRCS began to make significant investments in FY 2015 to address the backlog of deferred maintenance. This has continued into FY 2021. NRCS has completed many of these projects to address deferred maintenance issues and has maintained an acceptable level of deferred maintenance. Projects that are still in the process of being completed will affect NRCS's deferred maintenance estimate in FY 2022.

# Required Supplementary Information (Unaudited)

## Combined Statement of Budgetary Resources by Major Budget Account

Natural Resources Conservation Service  
**Combined Statements of Budgetary Resources by Major Budget Account**  
For the Years Ended September 30, 2021 and 2020  
(in Millions)

FY2021	Farm Bill	Conservation Operations	Watershed & Flood Prevention	Watershed Rehabilitation	Other	Total
<b>Budgetary Resources:</b>						
Unobligated balance from prior year budget authority, net (Note 16)	\$ 5,278	\$ 253	\$ 991	\$ 79	\$ 20	\$ 6,621
Appropriations (discretionary and mandatory)	3,289	833	222	10	4	4,358
Spending authority from offsetting collections (discretionary and mandatory)	26	15	24	3	-	68
<b>Total Budgetary Resources (Note 16)</b>	<b>\$ 8,593</b>	<b>\$ 1,101</b>	<b>\$ 1,237</b>	<b>\$ 92</b>	<b>\$ 24</b>	<b>\$ 11,047</b>
<b>Status of Budgetary Resources:</b>						
New obligations and upward adjustments (total)	\$ 3,504	\$ 866	\$ 419	\$ 45	\$ 16	\$ 4,850
Unobligated balance, end of year:						
Apportioned, unexpired accounts	2,506	159	815	46	8	3,534
Unapportioned, unexpired accounts	7	-	-	-	1	8
Unexpired unobligated balance, end of year	2,513	159	815	46	9	3,542
Expired unobligated balance, end of year	2,576	76	2	1	-	2,655
Total unobligated balance, end of year	5,089	235	817	47	9	6,197
<b>Total Budgetary Resources (Note 16)</b>	<b>\$ 8,593</b>	<b>\$ 1,101</b>	<b>\$ 1,236</b>	<b>\$ 92</b>	<b>\$ 25</b>	<b>\$ 11,047</b>
<b>Outlays, Net:</b>						
Outlays, net (discretionary and mandatory)	\$ 3,150	\$ 817	\$ 314	\$ 38	\$ 6	\$ 4,325
Distributed offsetting receipts	-	-	-	-	(1)	(1)
<b>Agency Outlays, net (discretionary and mandatory)</b>	<b>\$ 3,150</b>	<b>\$ 817</b>	<b>\$ 314</b>	<b>\$ 38</b>	<b>\$ 5</b>	<b>\$ 4,324</b>

Natural Resources Conservation Service  
**Combined Statements of Budgetary Resources by Major Budget Account**  
For the Years Ended September 30, 2021 and 2020  
(in Millions)

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

## Other Information (Unaudited)

### **SECTION 4: OTHER INFORMATION (Unaudited)**

#### **Management Challenges**

The Reports Consolidation Act of 2000 requires the USDA Office of Inspector General (OIG) to report annually on the most serious management challenges faced by USDA and its agencies. The following management challenges were identified and related to NRCS in the FY 2021 Management Challenges Report:

#### **Management Challenge 4: Financial Management**

In FY 2021, OIG's consideration of USDA's internal controls over financial reporting identified three significant deficiencies. These were: (1) improvements are needed by three component agencies in their overall financial management; (2) USDA needs to improve its IT security and controls, as many long-standing weaknesses remain; and (3) USDA needs to improve its controls over unliquidated obligations.

NRCS was among three component agencies which need to improve controls over financial reporting, specifically: controls over obligations and undelivered orders, controls over expenses, and entity-level controls.

NRCS agreed with the OIG's findings and recommendations.

## Other Information (Unaudited)

### **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. Please note that the previous 2020 submission which described the necessity for further entity-level controls was an external, not an FMFIA finding. It was included in error and has been removed from Table 30 below. Additionally, Maintaining, Controlling and Monitoring the FMMI General Ledger was upgraded in 2021 to a material weakness from a significant deficiency.

Summary of Financial Statement Audit					
Audit Opinion	Unmodified				
Restatement	No				
Material Weakness	Beginning Balance	New	Resolved	Unconsolidated	Ending Balance
Improved Accounting and Controls Needed Over Obligations and Undelivered Orders	1				1
Improved Accounting and Controls are Needed over Expenses	1				1
Improved Entity Level Controls are Needed	1				1
<b>TOTAL MATERIAL WEAKNESS</b>	<b>3</b>				<b>3</b>

Table 30: Summary of Financial Statement Audit

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

Table 31: FMFIA Compliance

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

Table 32: FFMIA Compliance



## Other Information (Unaudited)

### **Payment Integrity**

#### **Background**

Payment integrity means ensuring payments made to people on behalf of the government are managed correctly and that appropriate internal controls and checks and balances exist to minimize the likelihood of errors. An improper payment is 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 a payment lacks sufficient underlying documentation, the payment must also be considered an improper payment.

Agencies must report information on payment integrity, disclosing payments that were processed correctly and those payments that were improper. Since the Improper Payments Information Act (IPIA) of 2002, OMB has worked with agencies to increase the number of Federal payments to the right person, amount, and date. The IPIA, as amended by the Improper Payments Elimination and Recovery Act of 2010, and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERA), and the Payment Integrity Information Act of 2019, requires agencies to annually report information on improper payments to the President and Congress through their annual Performance and Accountability Report (PAR) or Annual Financial Report (AFR). In addition, more detailed information on improper payments and all of the information previously reported in the PAR or AFR that is not included in the FY 2021 PAR or AFR may be found at <https://paymentaccuracy.gov/>.

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

#### **Sampling and Estimation**

NRCS statistically selected payment samples to estimate the amount and percentage of improper payment dollars. The goal of this review is to obtain an overall estimate of the percentage of improper payment dollars within +/- 3.0 percent precision at the 95 percent confidence level. NRCS uses these results to identify issues and implement corrective actions to reduce improper payments on an ongoing basis.

## Other Information (Unaudited)

Testing criteria was applied to verify the following:

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

### Sampling Results

In FY 2020, NRCS obtained relief from testing the Farm Security and Rural Investment Act Program (FSRIP) payments due to its historically low improper payment rate. The program was reclassified from high risk to low risk. This program includes conservation related financial and technical assistance to landowners, as well as payroll expenses to NRCS employees. All payments related to this program collectively referred to as Farm Bill payments.

Since this relief was obtained after testing had begun for FY 2020, FY 2020 testing was completed. In FY 2020, NRCS statistically sampled and tested 747 Farm Bill transactions which were incurred in FY 2019. No improper payments were identified. However, due to the relief granted, FY 2021 testing was not performed. Instead, the program was risk assessed in the same manner as NRCS's other low risk programs.

Sampling results are summarized below.

Improper Payments – Farm Bill Payments			
Program	Outlays	Improper \$	Improper %
FY 2020 (in millions)	\$2,806.92	\$0	0%
FY 2021 (in millions)	Not Tested	Not Tested	Not Tested

Table 33: Sampled Improper Payment Risk (\$ Millions)

## Other Information (Unaudited)

NRCS also statistically samples payments related to the Emergency Watershed Protection -Disaster Relief Program. This program was appropriated under the Bi-Partisan Budget Act of 2018 and deemed susceptible to improper payments by OMB Bulletin M-18-14, Implementation of Internal Controls and Grant Expenditures for the Disaster-Related Appropriations. In FY 2021 NRCS statistically sampled 341 payments. In FY 2020, 186 payments were sampled. Zero improper payments were identified in both years.

Sampling results are summarized below.

Improper Payments – Emergency Watershed Protection Program			
Program	Outlays	Improper\$	Improper %
FY 2020 (in millions)	\$71	\$0	0%
FY 2021 (in millions)	\$169	\$0	0%

Table 34: Improper Payments; Watershed Protection Program

### Future Outlays and Reduction Targets

The following chart depicts estimated outlays and reduction targets for FY2022.

Future Improper Payment Estimates (in millions)	FY 2022		
	Outlays	IP%	IP\$
Emergency Watershed Protection Program	\$178.0	1.5% **	\$2.67

Table 35: Future Outlays and Improper Payment Estimates

\*\* Under normal circumstances, the target rate should not be set higher than the current rate. However, 1.5% was set as the target rate since NRCS's goals is to be at or under the 1.5% high risk threshold.

### Recapture of Improper Payment Reporting

In prior years, USDA spearheaded efforts to recapture improper payments on behalf of each USDA agency. With the assistance of contractors, USDA conducted limited scope Supplier Credit Recovery Audits, as recommended by OMB Circular A-123, Appendix C. NRCS's programs were included in the USDA Supplier Credit Recovery Audit Program. In FY 2020, USDA did not renew the contract because it was deemed as not cost effective. NRCS received a waiver from OMB to create an internal recovery audit program. NRCS recovers a significant amount of improper payments during the normal course of business and deemed it not cost effective to create a specific internal plan.

NRCS recaptures improper payments via various programmatic reviews and during the normal course of business. States and centers are required to submit improper payment documentation as improper payments are identified to ensure collection efforts are initiated and pursued. Types of improper payments include payments regarding ineligible land, ineligible participants, duplicate payments, and payments to the wrong payee.

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

## Other Information (Unaudited)

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 proper payments identified and recovered during the normal course of business.

Improper Payment Amount Identified Current Year	Improper Payment Amount Recovered Current Year
\$906,102	\$547,215

Table 36: Improper Payments and Recoveries (in dollars)

The tables below depict improper payments identified and recovered from the Supplier Credit Recovery Audit Program and overpayments recaptured outside of payment recapture audits. For FY 2021, NRCS was granted a waiver from OMB and discontinued the Supplier Credit Recovery program as not cost-effective to the Government, as explained above. The contract with the vendor was not renewed.

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

FY 2021								
Program or Activity	Amount Recovered	Type of Payment	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Funds to Treasury	Funds to Office of Inspector General	Funds Invested in the Federal Financial Improvement Program	Returned to NRCS for Original Purpose
Supplier Credit Recovery Audit Program	\$0	N/A	\$0	\$0	\$0	\$0	\$0	\$0
Overpayments Recaptured Outside of Payment Recapture Audits	\$906,102	Various	\$0	\$0	\$0	\$0	\$0	\$906,102

Table 37: Disposition of Funds Through Recapture Audit

### Agency Improvement of Payment Accuracy with the Do Not Pay Initiative

Prior to award, NRCS ensures contract and grant vendors maintain current registrations in the System for Award Management. Additionally, for Protracts contracts, NRCS ensures that payments are not made to deceased individuals by checking the Death Master File prior to obligation and payment. NRCS uses these systems directly, rather than through the DNP portal due to its extensive use of system interfaces in business processes. Though NRCS did not identify any improper payments through the DNP portal in FY 2021, NRCS will work more closely with the Department and other FPAC agencies in FY 2022 to streamline and consolidate DNP portal adjudication activities across all FPAC agencies.

## Other Information (Unaudited)

### **Grants Programs**

For FY 2021, federal agencies are required to provide a high-level summary of expired, but not closed, grants and cooperative agreement awards for which closeout has not yet occurred and for which the period of performance has elapsed by two years or more prior to September 30, 2021.

Category	2-3 Years	3-5 Years	More than 5 years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	120	0	0
Number of Grants/Cooperative with Undispersed Balances	4	0	0
Total Amount of Undisbursed Balances	\$148,301	0	0

Table 38: Grants/Cooperative Agreements Not Closed and the Period of Performance Has Elapsed By More Than Two Years  
(amounts in dollars)





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