U.S. Department of Agriculture

Office of Inspector General
Financial Audit Operations

Audit Report

Natural Resources Conservation Service's Financial Statements for Fiscal Year 2010

Report No. 10401-4-FM
November 2010

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

DATE: November 8, 2010

REPLY TO
ATTN OF: 10401-4-FM

TO: Dave White
Chief
Natural Resources Conservation Service

ATTN: Joseph B. Noselli
Chief Financial Officer
Natural Resources Conservation Service

Eloris Speight
Deputy Chief for Management
Natural Resources Conservation Service

Leon Brooks
Director of Compliance
Natural Resources Conservation Service

FROM: Gil H. Harden /s/
Assistant Inspector General
for Audit

SUBJECT: Natural Resources Conservation Service's Financial Statements
for Fiscal Year 2010

This report presents the results of the engagement to audit Natural Resources Conservation Service's (NRCS) financial statements for the fiscal year ended September 30, 2010. The report contains a disclaimer of opinion on the financial statements, as well as an assessment of NRCS's internal controls over financial reporting and compliance with laws and regulations.

KPMG LLP, an independent certified public accounting firm, was engaged to conduct the audit. In connection with the contract, we reviewed KPMG LLP's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit, in accordance with *Government Auditing Standards* (issued by the Comptroller General of the United States), was not intended to enable us to express, and we do not express, an opinion on NRCS's financial statements; internal control; whether NRCS's financial management systems substantially complied with the Federal Financial Management Improvement Act (FFMIA); or conclusions on

compliance with laws and regulations. KPMG LLP is responsible for the attached auditor's report, dated November 4, 2010, 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 07-04, *Audit Requirements for Federal Financial Statements*, as amended, except as disclosed below.

KPMG LLP reported that NRCS was unable to provide sufficient evidential matter in support of transactions and account balances, as presented in the NRCS financial statements as of and for the year ended September 30, 2010, particularly with respect to beginning net position balances and current year activity; recoveries of prior year obligations; obligations incurred, including accrued expenses and undelivered orders; leases; accounts receivable; unfilled customer orders; stewardship land; and the allocation of costs in the Statement of Net Cost. NRCS was not able to complete corrective actions and make adjustments, as necessary, to these and other financial statement amounts prior to the completion date of the engagement.

It was impracticable for KPMG LLP to extend their audit procedures sufficiently to determine the extent to which NRCS's consolidated financial statements as of September 30, 2010, may have been affected by the matters discussed in the preceding paragraph. Accordingly, the scope of KPMG LLP's work was not sufficient to enable the auditors to express an opinion on the financial statements of NRCS as of and for the year ended September 30, 2010.

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

- Accounting and controls over undelivered orders;
- accounting and controls over the revenue and unfilled customer orders process;
- accounting and controls over accrued expenses;
- controls over financial reporting;
- accounting and controls for property, plant, and equipment;
- general and application controls environment; and
- controls over purchase and fleet card transactions.

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

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, including the timeframes to address the report's recommendations. Please note the regulation requires a management decision to be reached on all findings and recommendations within a maximum of 6 months from report issuance.

United States Department of Agriculture

Natural Resources Conservation Service

Audit Report

For the Year Ended September 30, 2010

Table of Contents

Report Area	Page
Independent Auditors' Report	A-1
Exhibit I – Material Weaknesses	B-1
Exhibit II – Compliance with Laws and Regulations	C-1
Exhibit III – Status of Prior Year Material Weaknesses and Significant Deficiencies	D-1
Exhibit IV – Status of Prior Year's Non-Compliance Findings	E-1
Exhibit V – Management's Response	F-1
Financial Statements (Unaudited)	
Table of Contents	1
Management's Discussion and Analysis	4
Financial Statements	20
Notes to the Financial Statements	24
Required Supplementary Stewardship Information (Unaudited)	
Human Capital	36
Research and Development	37
Required Supplementary Information (Unaudited)	
Deferred Maintenance	38
Statement of Budgetary Resources by Major Budget Account	39

KPMG LLP
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Independent Auditors' Report

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

We were engaged to audit the accompanying balance sheet of the United States Department of Agriculture (USDA) Natural Resources Conservation Service (NRCS) as of September 30, 2010, and the related statement of net cost, changes in net position, and budgetary resources (hereinafter referred to as "financial statements") for the year then ended. The objective of our engagement was to express an opinion on the fair presentation of these financial statements. We were also engaged to consider NRCS's internal control over financial reporting and tested NRCS's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these financial statements.

Summary

As stated in our opinion on the financial statements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements as of and for the year ended September 30, 2010.

Our consideration of internal control over financial reporting resulted in identifying certain deficiencies that we consider to be material weaknesses, items 1 through 7, as defined in the Internal Control Over Financial Reporting section of this report, as follows:

1. Improved Accounting and Controls Needed Over Undelivered Orders
2. Improved Accounting and Controls Needed Over the Revenue and Unfilled Customer Order Process
3. Improved Accounting and Controls Needed Over Accrued Expenses
4. Improved Controls Needed Over Financial Reporting
5. Improved Accounting and Controls Needed for Property, Plant, and Equipment
6. Improved General and Application Access Controls Needed
7. Improved Controls Needed Over Purchase and Fleet Card Transactions

The results of our tests of compliance with certain provisions of laws, regulations, and contracts, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

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

Had we been able to perform all of the procedures necessary to express an opinion on NRCS's fiscal year 2010 financial statements, other internal control matters and other instances of noncompliance may have been identified and reported.

The following sections discuss the reasons why we are unable to express an opinion on NRCS's financial statements; our consideration of NRCS's internal control over financial reporting; our tests of NRCS's compliance with certain provisions of applicable laws, regulations, and contracts; and management's and our responsibilities.

Report on the Financial Statements

We were engaged to audit the accompanying balance sheet of NRCS as of September 30, 2010 and the related statement of net cost, changes in net position, and budgetary resources for the year then ended.

NRCS was unable to provide sufficient evidential matter in support of certain transactions and account balances, as presented in the NRCS financial statements as of and for the year ended September 30, 2010, particularly with respect to beginning net position balances and current year activity; recoveries of prior year obligations; obligations incurred, including accrued expenses and undelivered orders; leases; accounts receivable, unfilled customer orders; stewardship land; and the allocation of costs in the Statement of Net Cost. NRCS was unable to complete corrective actions and make adjustments, as necessary, to these and other financial statement amounts prior to the contractually required completion date of the engagement.

It was impracticable to extend our audit procedures sufficiently to determine the extent to which NRCS's financial statements as of and for the year ended September 30, 2010 may have been affected by the matters discussed in the preceding paragraph; accordingly, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying financial statements as of and for the year ended September 30, 2010.

The information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections is not a required part of the financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Internal Control Over Financial Reporting

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, in our fiscal year 2010 engagement to audit, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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. We noted certain additional matters that will be reported to management of NRCS in a separate letter.

Exhibit III presents the status of prior year significant deficiencies and material weaknesses.

Compliance and Other Matters

The results of our tests of compliance described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, as amended.

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

Exhibit II presents our non-compliance findings for FY 2010 and Exhibit IV presents the status of prior year's non-compliance findings.

* * * * * * *

Responsibilities

Management's Responsibilities. Management is responsible for the financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, and contracts applicable to NRCS.

Auditors' Responsibilities. As discussed in the report on the financial statements section, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying financial statements of NRCS as of and for the year ended September 30, 2010. We conducted our engagement in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, as amended. Those standards and OMB Bulletin No. 07-04, as amended, require that we plan and perform audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NRCS's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

In connection with our fiscal year 2010 engagement, we considered NRCS's internal control over financial reporting by obtaining an understanding of NRCS's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our procedures, but not for the purpose of expressing an opinion on the effectiveness of NRCS's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NRCS's internal control over financial reporting. Furthermore, had we been able to perform all of the procedures necessary to express an opinion on the financial statements of NRCS as of and for the year ended September 30, 2010, other matters involving internal control over financial reporting may have been identified and reported. We did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

In connection with our engagement, we performed tests of NRCS's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, as amended, including the provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to NRCS. Had we been able to perform all of the procedures necessary to express an opinion on the financial statements of NRCS as of and for the fiscal year ended September 30, 2010, other matters involving compliance with laws, regulations, and contracts may have been identified and reported. Providing an opinion on compliance with laws, regulations, and contracts was not an objective of our engagement and, accordingly, we do not express such an opinion.

NRCS's response to the findings identified during our engagement is presented in Exhibit V. We did not audit NRCS's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of NRCS's management, USDA's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 4, 2010

USDA Natural Resources Conservation Service
Material Weaknesses

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

During our internal control testing of undelivered orders/unliquidated obligations (UDOs) in fiscal year (FY) 2010, we noted that:

- The field did not consistently and/or accurately review UDO balances;
- Obligations were not approved by the budget officer before the obligation document was signed and obligated in the accounting system; and
- Obligations and advances were not recorded timely.

In addition, when testing undelivered order balances as of September 30, 2010, we noted 82 exceptions in 284 sampled items including amounts that were delivered or were not valid due to an expired period of performance. During our testing of advances to others balances as of September 30, 2010, we identified 15 invalid balances in a sample of 52. In testing downward adjustments activity during FY 2010, we identified numerous liquidations of obligations that should have occurred in the prior fiscal year; therefore, overstating the current year recoveries. Additionally, changes to accounting attributes in the current year that were not negated resulted in invalid upward and downward adjustments to obligations overstating obligations incurred activity and recoveries of prior year obligations. Finally, adjustments were not always supported by adequate documentation.

We were unable to conclude on the results of our testwork due to the materiality of identified differences. The control errors noted in our testwork increase the risk of an Anti-Deficiency Act violation.

The Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government (Standards) states that "transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded."

The Anti-Deficiency Act states that "an officer or employee of the United States Government or of the District of Columbia government may not make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation."

Recommendation 1:

In addition to recommendation 1 from our FY2009 audit report, we recommend that NRCS management:

- Review the current policies to determine whether they are compliant with Title 31 of the U.S. Code and GAO's Redbook, *The Principles of Federal Appropriations Law*;
- Ensure that NRCS has the capability to record upward and downward adjustments only when necessary and strengthen the review process to improve accuracy; and
- Monitor activity in upward and downward adjustment accounts to ensure that all invalid upward and downward adjustments are appropriate or negated timely.

Number 2: Improved Accounting and Controls Needed Over the Revenue and Unfilled Customer Order Process (Repeat Condition)

During our internal control testing of revenue and reimbursable agreements during FY 2010, we noted the following:

Unfilled Customer Orders

- Unfilled customer orders were not recorded in the correct fiscal year or were recorded without a valid agreement in place;
- Unfilled customer order balances were not liquidated/reduced for earned revenue or the issuance of bills;
- Unfilled customer orders were incomplete and inaccurate;
- Reimbursable agreements were approved with a period of performance that exceeds NRCS's authority;
- Unfilled customer orders were recorded with the Public without an advance; and
- Guidance over the reimbursable agreement process provided to the state office personnel by NRCS's national headquarters (NHQ) was incomplete and inaccurate.

Revenue and Accounts Receivable

- Revenue transactions were not adequately supported or recorded to the wrong general ledger accounts;
- Revenue transactions and corrections to prior year revenues were not recorded to the correct fiscal year;
- NRCS has not established formal and consistent policies and procedures over the monitoring of reimbursable agreements.
- Lack of consistent monitoring and/or management review controls over accounts receivable balances.
- No formal policy exists over accounts receivable write-offs or the methodology used for determining the proper allowance for uncollectable accounts. NRCS prepares the allowance for uncollectible amounts based on percentages which do not consider actual historical data or other risk factors that may impact the ability of the agency to collect balances owed.

In testing unfilled customer order balances as of August 31, 2010 and for September 2010, we noted 20 exceptions from 98 samples resulting in over and under statements due to invalid reimbursable agreements, misstated accounts receivable, or lack of adequate supporting documentation. We were unable to conclude on the results of our testwork due to the materiality of identified differences. Additional testwork determined that unfilled customer orders were incomplete.

Statement of Federal Financial Accounting Standards (SFFAS) No.7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, states that properly classifying these revenues according to their nature "provides the basis for applying different accrual accounting principles. In addition, proper classification is essential to constructing financial statements that meet the federal financial reporting objectives."

Per the United States Standard General Ledger, Unfilled Customer Orders are defined as, "The total amount of unearned reimbursable orders accepted. This account represents the amount of goods and/or services to be furnished for other Federal Government agencies and for the public if permitted by law and by long-standing, generally accepted practice. At the time goods and/or services are furnished, the amount becomes reimbursements earned."

OMB Circular No. A-123 states in part that "revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets." Additionally, "management has a fundamental responsibility to develop and maintain effective internal control."

OMB Circular A-135 states that "losses due to uncollectible amounts should be measured through a systematic methodology. The systematic methodology should be based on analysis of both individual accounts and a group of accounts as a whole." Additional guidance is provided by SFFAS 1, *Accounting for Selected Assets and Liabilities*.

Recommendation 2:

In addition to recommendation 2 from our FY 2009 audit report, we recommend that NRCS management:

- Develop a systematic methodology for calculating the allowance for uncollectible accounts which considers historical data, estimates losses on an individual and aggregate account basis, and considers other risk factors that may have an impact on NRCS's ability to collect amounts due.

Number 3: Improved Accounting and Controls Needed Over Accrued Expenses (Repeat Condition)

During our walkthrough of internal controls for accrued expenses and substantive testwork during FY 2010, we determined that NRCS did not have a consistent and effective control environment. Specifically:

- Accrual adjustment forms were not consistently completed, supported, and signed prior to recording the accrual in the general ledger;
- High-level accruals were reversed in the subsequent month resulting in unavailable funds being reported as available until quarter end;
- District/field and area offices provided a listing of accruals to the state office without adequate supporting documentation that were recorded to the general ledger without validation; and
- Expense accruals were recorded incorrectly or were inappropriate.

Additionally, our testwork of expenses and disbursements during FY 2010 identified expenses recorded to the wrong fiscal year due to incomplete accruals as of September 30, 2009.

In testing the accrued expense balance as of September 30, 2010, we noted 58 exceptions in 132 sampled items resulting from unsupported accrual amounts, adjustments recorded as accruals that should have been recorded as obligations, and accruals for goods or services that had already been disbursed. Additional testwork determined the accrued balance as of September 30, 2010 was incomplete.

We were unable to conclude on the results of our testwork due to the materiality of identified differences.

In accordance with SFFAS No. 1 paragraphs 74 and 77, "Accounts payable are amounts owed by a federal entity for goods and services received from, progress in contract performance made by, and rents due to other entities…When an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid amount of the goods. If invoices for those goods are not available when financial statements are prepared, the amounts owed should be estimated."

Per SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, paragraphs 19 and 25, "A liability for federal accounting purposes is a probable future outflow or other sacrifice of resources as a result of past transactions or events. General purpose federal financial reports should recognize probable and measurable future outflows or other sacrifices of resources arising from (1) past exchange

transactions, (2) government-related events, (3) government-acknowledged events, or (4) non-exchange transactions that, according to current law and applicable policy, are unpaid amounts due as of the reporting date."

Recommendation 3:

In addition to recommendation 3 from our FY 2010 audit report, we recommend that NRCS management:

- Perform quality assurance procedures to determine if accrued expenses are complete, accurate, and exist at quarter and year end;
- Require the use and approval of adjustment forms for recording accruals to the general ledger including adequate supporting documentation; and
- Use systems or posting models for long-term accruals that prevent the availability of unavailable funds between quarters.

Number 4: Improved Controls Needed Over Financial Reporting (Repeat Condition)

During our fiscal year 2010 engagement, we identified the following financial reporting weaknesses:

- NRCS does not have a posting model to correctly record recoveries of prior year obligations paid and unpaid, allowances relating to bad debt, advances to and from others, and accounts receivables with the public;
- NRCS does not have a methodology or the system capability to track and allocate costs that align with the goals reported in its current strategic plan. As a result, NRCS's Statement of Net Cost is not presented in accordance with U.S. generally accepted accounting principles (GAAP);
- The performance measures reported in the Management Discussion and Analysis (MD&A) were not presented consistent with the current strategic plan or in the same unit of measurement;
- Stewardship land information, comprised of conservation easements, is incomplete and inaccurate;
- NRCS did not have consistent monitoring controls to determine the condition of stewardship land;
- NRCS was unable to support human capital and research and development costs as presented in the required supplementary information to the financial statements;
- NRCS did not have controls in place to review and validate adjustments posted by the National Finance Center;
- NRCS was unable to provide extracts of property, plant, and equipment and advances balances. Transactions existed in the related general ledger accounts that are not linked;
- Reports for service organizations used by NRCS are not reviewed and mitigating controls do not exist;
- Incorrect vendor types were used for some obligations, advances, and disbursements, which may misstate the presentation of Federal and non-Federal gross costs and revenue;
- NRCS did not have adequate internal controls over the Fund Balance with Treasury reconciliation;
- NRCS was unable to determine deferred maintenance costs as of September 30, 2010; and
- Some financial disclosure information was inconsistent with the financial statements in drafts provided to KPMG.

SFFAS No. 7 states that "exchange revenue should be assigned to the costs of outputs unless it is not reasonably possible to do so. The net cost and gross cost for each component could be used for such purposes as comparison with the outputs and outcomes of the component in order to assess the efficiency and effectiveness with which resources were used to achieve results. Good information on gross cost and net cost, determined and analyzed in this manner, is essential to the success of the Government Performance and Results Act of 1993 (GPRA) in relating costs to accomplishments. GPRA requires agencies to set performance goals for program activity and establish performance indicators to measure

outputs and outcomes of the program activity. The net cost of operations (as well as gross cost) should be a fundamental measure of these resources."

SFFAS No. 15 *Management's Discussion and Analysis* identifies the information that is required in an entity's MD&A.

Statement on Federal Financial Accounting Standards No. 29, *Heritage Assets and Stewardship Land*, paragraph 41 states that "entities should report the condition of stewardship land as required supplementary information" (RSI) to the financial statements. In addition, it states that entities should report "the number of physical units by major category of stewardship land use for which the entity is the steward at the end of the reporting period" as well as "the number of physical units by major category of stewardship land use that were acquired and the number of physical units by major category of stewardship land use that were withdrawn during the reporting period."

Statement on Federal Financial Accounting Standards No. 6, *Accounting for Property, Plant and Equipment*, paragraph 83 lists the information that is required for disclosure relating to deferred maintenance.

Treasury Financial Manual (TFM), Part 2, Chapter 4200 directs agencies on how to report their year end closing data into the FACTS II system. Section 4225.35a, Receivables, states that agencies should "exclude any receivable from the public, except when a provision of law specifies that such orders may be used as budget authority. Unfilled customer orders do not exist for orders placed by the public, since agencies must receive advances with the orders for goods or services from the public." The USSGL provides additional posting model and general ledger guidance for all financial transactions.

Recommendation 4:

In addition to recommendation 4 from our FY 2009 audit report, we recommend that NRCS management:

- Establish a more robust internal control identification and evaluation process to identify all significant control deficiencies;
- Develop and implement internal control policies and procedures to address the identified risks;
- Establish risk assessment procedures to identify new risks and potential misstatements within the agency; and
- Conduct training and ongoing monitoring of the accounting activities at the national, state, and field office levels of the agency.

Number 5: Improved Accounting and Controls Needed for Property, Plant, and Equipment (Repeat Condition)

During our FY 2010 testwork over general PP&E, we noted the following:

<u>Real and personal property</u>

- Duties were not appropriately segregated allowing one individual to acquire property and maintain custodial responsibility;
- The property inventory process failed to identify real and personal property items that existed, but were not included in the inventory listing;
- Obsolete property items remain in the personal property inventory listing and sub-ledger;
- Information Technology (IT) property was recorded inconsistently;
- NRCS was unable to provide supporting documentation for real property balances;
- Capitalized assets included items below the agency's capitalization threshold;

- Some assets were recorded multiple times; and
- Amounts that should be capitalized were not always recorded as capital assets.

Capital leases

In testing internal control over leases, we determined that NRCS does not have formal and consistent control procedures. Additionally, the population used by NRCS to determine the classification of leases as capital or operating was incomplete. NRCS management represented to us that controls over the completeness of capital leases were implemented after our internal control testwork.

Our testwork over capital and operating leases as of August 31, 2010 identified 32 exceptions in 75 sampled items where the lease was either improperly classified, not adequately supported, or the capital lease liability balance was incorrect.

We were unable to conclude on the results of our testwork due to the range of errors in the lease population.

Internal Use Software

In testing internal control over internal use software, we determined that NRCS did not have adequate control procedures. For example, NRCS did not formally document its methodology for reclassifying internal use software costs from expenses to assets, nor did management review and approve those determinations. NRCS management represented to us that formal controls were implemented after our testwork.

OMB Circular A-123, *Management's Responsibility for Internal Control* states that management has a fundamental responsibility to develop and maintain effective internal control.

SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, states that "general PP&E shall be recorded at cost. Cost shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use. PP&E shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or to an agent of the entity. In the case of constructed PP&E, the PP&E shall be recorded as construction in progress until it is placed in service, at which time the balance shall be transferred to general PP&E."

SFFAS No. 6, paragraph 20, identifies the 4 criteria for classification of capital and operating leases. Additionally, SFFAS No. 6 it states that "the present value of rental and other minimum lease payments (should exclude) that portion of the payments representing executory cost."

SFFAS No. 5, paragraphs 45 and 46 identifies the "discount rate to be used in determining the present value of the minimum lease payments ordinarily would be the lessee's incremental borrowing rate unless (1) it is practicable for the lessee to learn the implicit rate computed by the lessor and (2) the implicit rate computed by the lessor is less than the lessee's incremental borrowing rate. If both these conditions are met, the lessee shall use the implicit rate."

Recommendation 5:

In addition to recommendation 5 from our FY 2009 audit report, we recommend that NRCS management:

- Reinforce segregation of duties responsibilities for inventory taking, reminding Accountable Property Officers that the inventory taker should not also have the authority to purchase PP&E;
- Train personnel on how to conduct inventories including identification of items that exist, but are not included in the listing;

- Immediately clarify or issue policy relating to the financial and administrative responsibility for IT PP&E;
- Provide training and policy concerning the accounting for and identification of obsolete inventory items;
- Implement a process to determine whether real and personal property balances are complete and accurate;
- Ensure that lease liabilities are amortized to zero at the end of the lease's life;
- Reinforce capitalization policies with the state offices with emphasis on bulk purchases;
- Develop policies and/or guidance relating to accounting for construction in progress by working together with the Management Services Division;
- Finalize and implement lease accounting policies and controls to ensure that leases are properly identified, classified, and recorded in accordance with relevant accounting standards and provide training on this policy to state office employees; and
- Validate the completeness and accuracy of lease information in the lease inventory and the accounting system.

Number 6: Improved General and Application Access Controls Needed (Repeat Condition)

USDA International Technology Services (ITS) IT General Controls

At the Department level, the USDA Office of Inspector General (OIG) identified IT general control deficiencies at ITS, a service organization within USDA. ITS manages the network/server infrastructure that supports major applications at NRCS. Control weaknesses identified by the USDA OIG included weaknesses in physical access, logical access, change management, and complete and compliant policies and procedures.

Actions to resolve the conditions in the ITS IT general controls environment are critical to ensuring the protection of critical NRCS applications, resources and data.

NRCS IT General Controls

In testing general and application access controls at NRCS during FY 2010, we noted the following deficiencies:

Remote Access

NRCS has not implemented multi-factor authentication when signing or logging in for remote access.

Application-Level Access

- One separated employee retained an active access to applications after separation;
- NRCS did not have a formal process to document authorization of access for one NRCS-specific application;
- In a second NRCS-specific application, NRCS did not have a formal process to document access for the vendor coordinator role until March 25, 2010 and did not review the activity of individuals with this access.

Active Directory Network-Level Access

For a sample of 45 users granted access between October 2009 and June 2010, we noted the following:

- Seven users did not have their access request form signed by both their Supervisor and the Information System Security Point of Contact (ISSPOC);
- Four active directory users did not have active directory access approved on the access request form;
- One employee retained an active directory account after separation from NRCS; and
- Four additional active directory users did not have a complete or formally documented access request form.

For a selection of 25 new VPN users granted access from October 2009 through June 2010:

- Eight users did not have VPN access approved on the access request form;
- Six users were either missing a supervisor or ISSPOC signature on the access request form; and
- Three users did not have a complete or formally documented access request form.

NRCS continues to have weak manual and entity-level controls, which further elevates the severity of the IT application and general control weaknesses. Additionally, access control findings at NRCS and ITS from FY 2008 and 2009 have not been addressed and corrected.

National Institute of Standards & Technology (NIST) Special Publication 800-53, *Recommended Security Controls for Federal Information Systems*, identifies the following controls:

"The organization manages information system accounts, including establishing, activating, modifying, reviewing, disabling, and removing accounts. The organization reviews information system accounts periodically. The organization identifies authorized users of the information system and specifies access rights/privileges. The organization grants access to the information system based on: (i) a valid need-to-know that is determined by assigned official duties and satisfying all personnel security criteria; and (ii) intended system usage. The organization requires proper identification for requests to establish information system accounts and approves all such requests. The organization ensures that account managers are notified when information system users are terminated or transferred and associated accounts are removed, disabled, or otherwise secured. Account managers are also notified when users' information system usage or need-to-know changes."

Additionally, an organization "regularly reviews/analyzes audit records for indications of inappropriate or unusual activity, investigates suspicious activity or suspected violations, reports findings to appropriate officials, and takes necessary actions. The organization establishes appropriate divisions of responsibility and separates duties as needed to eliminate conflicts of interest in the responsibilities and duties of individuals."

Recommendation 6:

We recommend that NRCS management:

- Establish a process to actively review and document its review of application, active directory, and VPN access to determine whether it is appropriate based on the employee's role;
- Establish controls to monitor the control environment at ITS and mitigate the identified weaknesses;
- Work with ITS to implement two-factor authentication for remote users of NRCS specific applications;
- Monitor and respond promptly to any detected vulnerabilities and determine the impact of these invasions on financially significant systems and information; and
- Continue to follow its newly established process for granting access to ensure that accounts are only granted to appropriate personnel and evidence of such approval is retained.

Number 7: Improved Controls Needed Over Purchase and Fleet Card Transactions (Repeat Condition)

In testing controls over purchase cards, we noted that:

- NRCS did not perform a review of active cardholder accounts prior to issuing new purchase cards to existing cardholders when NRCS transitioned to a new purchase card provider and system;
- Quarterly supervisory review of purchase card transactions was not conducted and the cardholder was not reconciling transactions to the correct fund timely; and
- Formal requests and supervisor approvals for new purchase cards were not required or maintained.

In May 2010, we recommended to NRCS management that it immediately validate whether active cardholders are current NRCS employees and appropriately possessed purchase cards. By the end of field work, NRCS had not addressed this recommendation. NRCS management represented to us that policies and controls over supervisory reviews and the issuance of new cards were implemented after our testwork.

Additionally, we were unable to identify controls over the fleet card process.

The Office of Management and Budget Circular No. A-123 states that "management is responsible for developing and maintaining effective internal control. The agency head must establish controls that reasonably ensure that revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets."

USDA Departmental Regulation 5013-6, *Office of Procurement and Property Management*, paragraph 13, states that "cardholder supervisors will monitor purchasing activity of cardholders in their units. Supervisors shall review cardholder transaction reports at least quarterly or more often if agency procedures require. On reviewing a cardholder report, the supervisor shall initial it and retain it on file. Supervisors shall notify the cardholder's local agency program coordinator if they identify questionable transactions or possible misuse of the card."

USDA Departmental Regulation 5013-6, *Office of Procurement and Property Management*, paragraph 7k, states "it is USDA policy that cardholders shall reconcile their accounts no later than 30 days after a transaction appears in the purchase card system, absent extenuating circumstances."

Department Regulation (DR) 5400-006, dated November 26, 2008, states that "users of the fleet charge cards or alternative payment methods must submit receipts for purchases. The local fleet program coordinator, an accountable property official, or other management official responsible for the fleet and non-fleet vehicles and motorized equipment must keep all receipts for a minimum of one calendar year in order to maintain an adequate audit trail."

Recommendation 7:

In addition to recommendation 6 from our FY 2009 audit report, we recommend that NRCS management immediately review all cardholders to determine whether they are current NRCS employees and should have access to a purchase card.

USDA Natural Resources Conservation Service
Compliance with Laws and Regulations

Number 8: NRCS Did Not Substantially Comply with the Federal Financial Management Improvement Act of 1996 (Repeat Comment)

Compliance with Federal Financial Management System Requirements

During our engagement, we determined that NRCS's systems are unable to:

- Capture and properly report information in the Statement of Net Cost in accordance with U.S. Generally Accepted Accounting Principles (GAAP); and
- Record and report stewardship land information as required by Statements of Federal Financial Accounting Standard No. 29.

These issues were addressed through our recommendations in Exhibit I.

Compliance with Applicable Federal Accounting Standards

During our engagement, we determined that beginning net position balances and current year activity; recoveries of prior year obligations; obligations incurred, including accrued expenses and undelivered orders; leases; accounts receivable, and unfilled customer orders were not properly recorded in accordance with Federal accounting standards. Additionally, NRCS was unable to capture and properly report information in the Statement of Net Cost and the related footnote in accordance with U.S. GAAP. Stewardship information was incomplete and inaccurate, and is not in accordance with SFFAS 29.

These issues were addressed through our recommendations in Exhibit I.

Compliance with the United States Standard General Ledger (USSGL)

During our engagement, we noted that NRCS did not use USSGL appropriate posting models for recoveries of prior year obligations paid and unpaid, allowances relating to bad debt, advances to and from others, and accounts receivables with the public.

These issues were addressed through our recommendations in Exhibit I.

USDA Natural Resources Conservation Service
Status of Prior Year's Material Weaknesses and Significant Deficiencies

As required by *Government Auditing Standards* and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, we have reviewed the status of prior year's significant deficiencies and material weaknesses. The following table summarizes these issues and provides our assessment of the progress NRCS has made in correcting these findings.

Reported Condition	Year Identified	Fiscal Year 2010 Status
Improved Accounting and Controls Needed Over Undelivered Orders	2008 and 2009 Material Weakness	Open (FY 2010 MW No.1)
Improved Accounting and Controls Needed for Unfilled Customer Orders	2008 and 2009 Material Weakness	Open (FY 2010 MW No. 2)
Improved Accounting and Controls are Needed for Accrued Expenses	2008 and 2009 Material Weakness	Open (FY 2010 MW No. 3)
Improved Accounting and Controls Needed for Property, Plant, and Equipment	2008 and 2009 Material Weakness	Open (FY 2010 MW No. 5)
Improved Controls are Needed Over Financial Reporting	2008 and 2009 Material Weakness	Open (FY 2010 MW No. 4)
NRCS and USDA ITS Needs to Improve their General Controls Environment	2008 and 2009 Significant Deficiency	Open (FY 2010 MW No. 6)
Lack of Controls Over Purchase and Fleet Card Transactions	2008 and 2009 Significant Deficiency	Open (FY 2010 MW No. 7)

USDA Natural Resources Conservation Service
Status of Prior Year's Non-Compliance Findings

As required by *Government Auditing Standards* and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, we have reviewed the status of prior year's non-compliance findings. The following table summarizes these issues and provides our assessment of the progress NRCS has made in correcting these findings.

Reported Condition	Years Reported	Fiscal Year 2010 Status
NRCS Does Not Obligate all Transactions Required by Appropriation Law	2008 and 2009	Closed
NRCS Does Not Substantially Comply with Federal Financial Management Improvement Act of 1996	2008 and 2009	Open/Comment Repeated in 2010

United States Department of Agriculture

NRCS

Natural Resources Conservation Service
P.O. Box 2890
Washington, D.C. 20013

Mr. Michael Lippert
KPMG LLP
2001 M Street, NW
Washington, D.C. 20036

Dear Mr. Lippert,

We have reviewed KPMG's Independent Auditor's Report dated November 4, 2010 and generally agree with its contents.

In FY 2010, NRCS has made significant strides towards its ultimate goal of obtaining clean financial audit opinion:

- NRCS has made significant progress in the development of critical policies, procedures and training material. Six critical accounting policies were issued to address fourteen audit recommendations.
- With regard to purchase and fleet cards, policies and controls over supervisory reviews and the issuance of new cards were implemented at the end of FY 2010.
- To remediate its access control deficiencies, NRCS has initiated automating manual processes for establishing an access control infrastructure.

In FY 2011, NRCS will continue its audit remediation efforts:

- NRCS will continue to strengthen its financial management leadership, technical experience and depth.
- NRCS management will continue to deploy updated policies, procedures and training.
- NRCS will establish a weekly open call to the states to answer questions and provide guidance.
- A more robust A-123 program will be developed and implemented that will include quarterly compliance testing.
- NRCS will continue its progress towards converting from its current financial management system to a SAP system. The conversion process will include cleansing financial transactions and balances. The data cleansing effort will go hand in hand with our remediation efforts.

NRCS continues to accelerate its progress toward its goal of a clean financial audit opinion and recognizes the need to be a good steward of taxpayer dollars along with helping people help the land.

Sincerely,

Joseph B. Noselli

Joseph B. Noselli,
Chief Financial Officer

cc: Office of the Inspector General

Helping People Help the Land

An Equal Opportunity Provider and Employer

Natural Resources Conservation Service

Fiscal Year 2010

Financial Statements

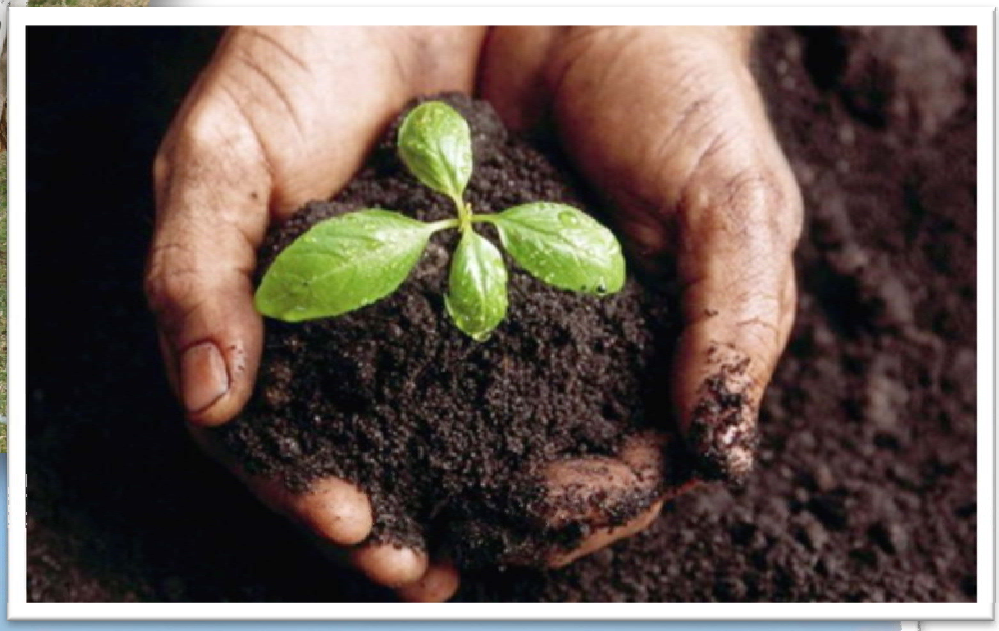

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS 4

MISSION AND ORGANIZATIONAL STRUCTURE 4
Mission Statement 4
Organizational Structure 4
Mission Goals 4
Mission Goal 1: Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Re-populating, and Economically Thriving 4
Mission Goal 2: Ensure our National Forests and Private Working Lands are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources 5
Mission Goal 3: Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security 6
Performance Scorecard for FY 2010 6
Performance Goals, Objectives, and Results 8
Business Lines and Resources 9
Business Lines 9
Analysis of Financial Statements and Stewardship Information 10
Assets 10
Liabilities 11
Net Position 11
Net Cost of Operations 12
Budgetary Resources 12
Analysis of Systems, Controls and Legal Compliance 13
FY 2010 Financial Statement Audit Report Results 13
Federal Managers' Financial Integrity Act (FMFIA) of 1982 13
Federal Managers' Financial Integrity Act Action Plans 14
Compliance with Laws and Regulations 14
Internal Controls over Financial Reporting (OMB Circular A-123, Appendix A) 15
Federal Financial Management Improvement Act (FFMIA) of 1996 16
Federal Information Security Management Act (FISMA) 16
Improper Payments Information Act (IPIA) 17
Anti-Deficiency Act 17
Inspector General Act Amendments of 1988 17
NRCS 4TH Quarter GAO/OIG Active Audits Summary Report - FY 2010 18
Other Management Information, Initiatives and Issues 19
Limitations of Financial Statements 19
Financial Statements 20
Balance Sheet 20
Statement of Net Cost 21
Statement of Changes in Net Position 22
Statement of Budgetary Resources 23
Notes to the Financial Statements for the year ended September 30, 2010 24
Note 1 – Significant Accounting Policies 24
A. Reporting Entity 24
B. Basis of Presentation and Accounting 25
C. Fund Balance with the U.S. Treasury 25
D. Accounts Receivable 25
E. General Property, Plant, and Equipment 25
F. Other Assets 25
G. Liabilities 26
H. Workers Compensation Liability 26
I. Employee Annual, Sick, and Other Leave 26
J. Pension and Other Retirement Benefits 26
K. Revenues and Other Financing Sources 26
L. Imputed Financing 27
M. Use of Estimates 27
Note 2 - Fund Balance with Treasury 27
Note 3 – Accounts Receivable, Net 27
Note 4 – General Property, Plant, and Equipment, Net 28

NOTE 5 – STEWARDSHIP PP&E 28
STEWARDSHIP LAND 28
HERITAGE ASSETS 29
NOTE 6 - OTHER ASSETS 29
NOTE 7 – LIABILITIES NOT COVERED BY BUDGETARY RESOURCES 30
NOTE 8 - OTHER LIABILITIES 30
NOTE 9 – LEASES 31
NOTE 10 – COMMITMENTS AND CONTINGENCIES 31
NOTE 11 – INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE 32
NOTE 12 – SUBORGANIZATION PROGRAM COSTS/PROGRAM COSTS BY SEGMENT 33
NOTE 13 - COST OF STEWARDSHIP PP&E 34
NOTE 14 – EXCHANGE REVENUES 34
NOTE 15 - APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED 34
NOTE 16 - LEGAL ARRANGEMENTS AFFECTING USE OF OBLIGATED BALANCES 34
NOTE 17 - EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE UNITED STATES GOVERNMENT 34
NOTE 18 – UNDELIVERED ORDERS AT THE END OF THE PERIOD 34
NOTE 19 – RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET 34
REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION 36
HUMAN CAPITAL 36
NATIONAL VOLUNTEER PROGRAM 36
PLANT MATERIALS CENTERS 36
RESOURCE CONSERVATION AND DEVELOPMENT 36
PLANT MATERIALS CENTERS 36
RESEARCH AND DEVELOPMENT 37
REQUIRED SUPPLEMENTARY INFORMATION 38
DEFERRED MAINTENANCE 38

Tables

Table 1: Performance measure for Improved Soil Quality 5
Table 2: Performance measure and programs for Nutrient Management Plans..... 5
Table 3: Performance measure and programs for Healthy Grazing Land and Forest Land..... 5
Table 4: Performance measure and programs for Farm and Ranchlands Protection Program (FRPP)..... 6
Table 5: Performance measure and programs for Wetlands Reserve Program (WRP) 6
Table 6: Comprehensive Nutrient Management Plans (CNMP)..... 6
Table 7: Enhanced Soil Quality 7
Table 8: Improved Grazing and Forest Lands..... 7
Table 9: Farm and Ranch Protection Program (FRPP) 7
Table 10: Wetlands Reserve Program (WRP) 7
Table 11: Assets as of September 30, 2010..... 10
Table 12: Liabilities as of September 30, 2010 11
Table 13: Net Position as of September 30, 2010 11
Table 14: Net Cost of Operations for the year ended September 30, 2010 12
Table 15: Budgetary Resources for the year ended September 30, 2010..... 12
Table 16: Federal Managers' Financial Integrity Act corrective action plans..... 14
Table 17: Compliance with Laws and Regulations corrective action plans..... 14
Table 18: Internal Controls over Financial Reporting action plans 15
Table 19: Federal Financial Management Improvement Act action plans 16
Table 20: Programs tested for IPIA 17
Table 21: Three Year Trend..... 17
Table 22: GAO/OIG Active Audits Summary Report - FY 2010 18
Table 23: Fund Balance with Treasury as of September 30, 2010 27
Table 24: Status of Fund Balance with Treasury as of September 30, 2010..... 27
Table 25: Accounts receivable as of September 30, 2010..... 28
Table 26: General PP&E as of September 30, 2010 28
Table 27: Stewardship easements as of September 30, 2010..... 29
Table 28: Balance of Other Assets as of September 30, 2010 29
Table 29: The balance of liabilities not covered by budgetary resources as of September 30, 2010 30
Table 30: Other Liabilities as of September 30, 2010..... 30
Table 31: Capital Leases Summary as of September 30, 2010..... 31
Table 32: Total Capital Leases Future Payments 31
Table 33: Total Operating Leases Future Payments..... 31
Table 34: Costs Incurred to Protect Natural Resources for the year ended September 30, 2010..... 32
Table 35: Costs by Program for the year ended September 30, 2010 33
Table 36: Reconciliation of Net Cost of Operations (Proprietary to Budget)
for the year ended September 30, 2010 35
Table 37: NRCS Investments in Human Capital 36
Table 38: NRCS Investments in Research and Development 37
Table 39: Statement of Budgetary Resources by Major Budget Account
for the year ended September 30, 2010 39

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) serves as a high-level overview of the fiscal year (FY) 2010 financial and non-financial performance for the Natural Resources Conservation Service (NRCS), an agency of the United States Department of Agriculture (USDA).

The MD&A discusses the agency's compliance with legal and regulatory requirements, including the Federal Managers' Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA), the Inspector General Act, and other key legal and regulatory requirements.

MISSION AND ORGANIZATIONAL STRUCTURE

Mission Statement

The mission statement of NRCS is "*Helping People Help the Land*".

Consistent with that mission, NRCS provides products and services that enable people to be good stewards of the Nation's soil, water, and related natural resources on non-Federal lands. With our help, people are better able to conserve, maintain, or improve their natural resources. As a result of our technical and financial assistance, land managers and communities take a comprehensive approach to the use and protection of natural resources in rural, suburban, urban, and developing areas. NRCS has partnered with conservation districts and others throughout the U.S. to help landowners, as well as federal, state, tribal, and local government and community groups, in accomplishing our mission.

Organizational Structure

NRCS operates under the direction of the USDA Under Secretary for Natural Resources and Environment. The NRCS mission is carried out across three Regions which cover all 50 States, the Caribbean Area (Puerto Rico), the Pacific Basin Area, three National Technology Support Centers, and 11 National Centers.

NRCS is structured in a line organization with six deputy areas that report to the Chief including the following: Management; Science and Technology; Soil Surveys and Resource Assessment; Financial Assistance and Community Development; Easements and Landscape Planning; and Strategic Planning and Accountability.

Mission Goals

In FY 2010 USDA released a new strategic plan for FY 2010-2015. NRCS is revising its strategic plan and expects to release it in the first half of FY 2011. For this year, NRCS will be reporting mission goals, performance measures and accomplishments in alignment with the goals articulated in the new USDA strategic plan as follows:

- Assist rural communities to create prosperity so they are self-sustaining, re-populating and economically thriving (Goal 1);
- Ensure our national forests and private working lands are conserved, restored and made more resilient to climate change, while enhancing our water resources (Goal 2);
- Help America promote agricultural production and biotechnology exports as America works to increase food security (Goal 3); and
- Ensure that all America's children have access to safe, nutritious, and balanced meals (Goal 4).

NRCS has programs and priorities that address goals 1, 2, and 3 in the USDA strategic plan. The majority of the programs and activities are related to Goal 2. NRCS has no costs aligned to Goal 4.

Mission Goal 1: Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Re-populating, and Economically Thriving

USDA's Resource Conservation and Development (RC&D) program helps communities plan and carry out projects that increase natural resources conservation, support economic development, and enhance the local environment and standard of living. RC&D helps to create jobs, sponsors training and skills development programs, helps develop natural resource-based industries, such as alternative energy enterprises and agritourism, and improves or acquires needed community amenities, such as recreation facilities, rural housing, sewage treatment plants, water systems, and roads. RC&D environmental projects improve natural resources for agricultural and other uses such as tourism, fish and wildlife habitat, energy conservation and production, and environmental education. Projects may also promote and preserve agricultural land and historic and scenic sites. RC&D councils conserve the land through projects that improve soil quality, reduce soil erosion, keep

sediment out of water supplies, help adapt to climate change, protect water resources by promoting wise water use, and improve the quality of local water supplies.

Mission Goal 2: Ensure our National Forests and Private Working Lands are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources

NRCS works with landowners and producers on America's working farm and ranch lands to address environmental concerns, maintain a sustainable highly productive agricultural land base, improve the economic viability of rural communities, improve the nation's water quality and quantity, and restore or enhance wildlife habitat through efficient and effective management of the nation's non-Federal agricultural crop, hay and grazing lands.

NRCS provides accurate and timely information on water supply and soil moisture conditions enabling resource managers to assess risks of damage from either drought or flooding and to adjust operations as needed. Although agricultural risk management typically has focused on mitigating economic threats to agricultural viability, natural resources assessment and conservation are key to effective risk management. Adoption of practices, such as water conserving irrigation systems, can reduce economic and environmental risk. In addition, practices applied to reduce erosion or improve grazing land or forest health can mitigate the risk to resource productivity that severe weather or climate change might cause.

NRCS delivers technical assistance to communities experiencing development pressure by employing strategic approaches to land use planning and natural resource conservation. In addition, NRCS has programs that allow quick and decisive action to safeguard lives and property from floods, drought, and the products of erosion on any watershed whenever fire, flood or any other natural occurrence is causing or has caused a sudden impairment of the watershed.

Acres of cropland with sustained productivity and improved ecological health	Trend			FY 2010	
	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	Target	Actual
Cropland with conservation applied to improve soil quality (millions of acres)					
Conservation Technical Assistance	7.3	8.3	7.6	7.5	8.2
Environmental Quality Incentives Program	5.3	5.6	4.8	5.0	4.8

Table 1: Performance measure for Improved Soil Quality

Acres of cropland with sustained productivity and improved ecological health	Trend			FY 2010	
	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	Target	Actual
Comprehensive nutrient management plans applied (number of plans)					
Conservation Technical Assistance	1,911	1,745	1,485	1,300	1,349
Environmental Quality Incentives Program	2,490	2,520	2,019	2,000	1,739

Table 2: Performance measure and programs for Nutrient Management Plans

Percentage of non-Federal and USDA-managed grazing lands with conservation or management applied to improve or sustain productivity and ecological health	Trend			FY 2010	
	FY 2007	FY 2008	FY 2009	Target	Actual
Grazing lands and forestland with conservation applied to protect the resource base and environment, Conservation Technical Assistance (millions of acres)					
Conservation Technical Assistance	14.2	16.0	16.4	14.6	17.6
Environmental Quality Incentives Program	16.5	16.9	17.2	15.0	17.5

Table 3: Performance measure and programs for Healthy Grazing Land and Forest Land

Total acres of agricultural and forest landscapes protected from conversion through conservation easements and fee simple purchases, to preserve natural resource quality, open space and rural amenities	Trend			FY 2010	
	FY 2007	FY 2008	FY 2009	Target	Actual
Prime, unique, and important farmland protected from conversion to non-agricultural uses by conservation easements (acres)					
Farm and Ranchlands Protection Program (FRPP)	53,594	38,297	38,260	40,000	53,898

Table 4: Performance measure and programs for Farm and Ranchlands Protection Program (FRPP)

Acres of wetland ecosystems restored, enhanced, constructed, or protected on non-Federal lands in order to improve wetland functions and values, such as floodwater control, critical wildlife habitat, and carbon sequestration	Trend			FY 2010	
	FY 2007	FY 2008	FY 2009	Target	Actual
Wetlands created, restored or enhanced (acres)					
Wetlands Reserve Program (WRP)	149,326	128,860	106,379	125,000	129,082

Table 5: Performance measure and programs for Wetlands Reserve Program (WRP)

Mission Goal 3: Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security

NRCS Plant Material Centers collect and evaluate native plants for their potential use in a variety of environmental circumstances and develop vegetative technologies to address specific environmental situations. Examples include suitable cover in short or long-term drought conditions, streambank protection, erosion control, water quality, and carbon sequestration. Plant varieties that prove suitable for a particular use are cultivated for seed and made available to commercial growers. In addition, the Centers identify emerging needs, such as pollinator habitat, biofeedstock and air quality. The Centers evaluate plant and vegetative technologies to address the emerging needs, and then develop technical and training materials on those technologies, such as soil bioengineering, range plantings and pollinator habitat.

Performance Scorecard for FY 2010

The following scorecards display NRCS's accomplishments as related to USDA's Strategic Plan, Mission Goal 2: Ensure our National Forest and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources.

Annual Performance Goals and Indicators	Fiscal Year 2010		
	Target	Actual	Result
Comprehensive Nutrient Management Plans			
Conservation Technical Assistance	1,300	1,349	Met [1]
Environmental Quality Incentives Program	2,000	1,739	Unmet [2]
[1] Data assessment metrics to meet the target allow for an actual number in the range 90% - 110%.			
[2] Data assessment metrics to meet the target allow for an actual number in the range 90% - 110%.			

Table 6: Comprehensive Nutrient Management Plans (CNMP)

Uncertainty within the economic sector will continue to impact individual conservation practice installation and completion of CNMPs. This uncertainty impacts the willingness of landowner/operators to invest in conservation practices that don't provide an immediate financial return. In most cases low cost or no cost easily implemented CNMP practices have been installed. Those that remain both planned or in the design stage, are far more complicated and require a higher level of owner/operator financial investment. Since CNMPs are reported only after all planned practices are installed, postponing or cancelling the installation of even one practice will seriously impact NRCS performance relative to anticipated workload. This was the case in FY 2010 and could be a factor over the next few years.

Annual Performance Goals and Indicators	Fiscal Year 2010		
	Target	Actual	Result
Cropland with conservation applied to improve soil quality (millions of acres)			
Conservation Technical Assistance Program	7.5	8.2	Met[1]
Environmental Quality Incentives Program	5.0	4.8	Met [2]
[1]Data assessment metrics to meet the target allow for an actual number in the range 90%-110%			
[2]Data assessment metrics to meet the target allow for an actual number in the range 90%- 110%			

Table 7: Enhanced Soil Quality

Annual Performance Goals and Indicators	Fiscal Year 2010		
	Target	Actual	Result
Grazing and forest land with conservation applied to protect and improve the resource base (millions of acres)			
Conservation Technical Assistance	14.6	17.6	Exceed[1]
Environmental Quality Incentives Program	15.0	17.5	Exceed[2]
[1]Data assessment metrics to meet the target allow for an actual number in the range 90%- 110%			
[2]Data assessment metrics to meet the target allow for an actual number in the range 90% - 110%			

Table 8: Improved Grazing and Forest Lands

Many areas had a combination of events that pushed performance beyond expectations. Department technical experts continued their outreach efforts to all landowners and producers. They focused attention on those with conservation practices scheduled for installation in previous years and those interested in meeting minimum Conservation Security Program (CSP) requirements. In both cases they exceeded outreach expectations. The result was grazing and forest land conservation applied in CTA of 3.0 million acres and in EQIP 2.5 million acres beyond their respective FY 2010 targets.

Annual Performance Goals and Indicators	FY 2010		
	Target	Actual	Result
Prime, unique and important farmland protected from conversion to non-agricultural uses by conservation easements (acres)			
Farm and Ranch Protection Program (FRPP)	40,000	53,898	Exceed[1]
[1]Data assessment metrics to meet the target allow for an actual number in the range 90%- 110%			

Table 9: Farm and Ranch Protection Program (FRPP)

Easements typically cover the entire farm or ranch. Only a portion of the entire easement consists of prime, unique or important farmland (prime land). This performance measure targets prime land within the larger easement. On average, the ratio of total easement acres to prime land is 62 percent. For FY 2010, 62 percent of the total easement acres would have resulted in a performance level of 45,992 acres, very near the Data Assessment Metrics Range of 36,000 - 44,000. However, the prime land easement acreage ratio for FY 2010 was 74%, resulting in a substantial increase in performance over the FY 2010 target.

Annual Performance Goals and Indicators	Fiscal Year 2010		
	Target	Actual	Result
Wetlands created, restored or enhanced (acres)			
Wetlands Reserve Program (WRP)	125,000	129,082	Met[1]
[1]Data assessment metrics to meet the target allow for an actual number in the range 90%- 110%			

Table 10: Wetlands Reserve Program (WRP)

Performance Goals, Objectives, and Results

NRCS regularly collects program performance data through the Accountability Information Management System (AIMS). AIMS is a set of data collection tools, processes and related software that provides information on a routine basis to support the agency's strategic and performance planning, budget formulation, workforce planning, and accountability activities. NRCS tracks and evaluates field and state level conservation planning efforts and practice implementation through the Performance Results System (PRS).

- **Completeness of Data —** The reported Performance measures are based on actual data reported through September 30, 2010. 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 — allowing managers at appropriate levels to evaluate and monitor program performance.
- **Reliability of Data —** For FY 2010, the data reported for these performance measures was determined within PRS based on information validated and received from the National Conservation Planning (NCP) database and the Program Contracts System (ProTracts). ProTracts is a web-enabled application used to manage NRCS conservation program applications, cost share contracts, and program fund management. Conservation plans are developed in consultation with the customer, created with the Customer Service Toolkit (Toolkit), and warehoused in the NCP. Applied conservation practices are date-stamped, geo-referenced and linked to an employee ID, enabling detailed quality-assurance reviews. Periodic reviews are conducted by state and headquarters personnel to assess the accuracy of reported data.
- **Quality of Data —** The data are reported by field staff located where the conservation is occurring. Field staffs 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 the PRS data is valid, complete and reliable. NRCS has instituted a number of quality assurance methods to ensure data is reliable and accurate. These methods include: periodic quality assurance reviews of data by national, state and field staff; certification by the State Conservationists that the data entered into the system is accurate and free of errors; and holding State Conservationists and other senior managers accountable for performance in their individual performance plans.
- **Linking Performance to Programs —** To ensure program accountability and evaluate program efficiency, data on conservation plans written and conservation practices applied must be linked to the program that funded the staff time needed to carry out each activity. Where more than one program is used to apply practices on the same land unit, each program is credited under the performance measure. The chief sources of data for these performance measures are NCP, ProTracts, and PRS.
- **Limitations Associated with Performance Management Reporting —** Problems with performance management reporting are typically caused by errors in data entry. NRCS developed a number of software controls within PRS to ensure such errors are minimized.
- **Future Objectives —** NRCS hopes to streamline its performance reporting based on recommendations provided by an independent consultant regarding how best to increase accountability and improve reporting requirements. NRCS is reviewing the recommendations.

Business Lines and Resources

Business Lines

To fulfill its mission, NRCS provides technical and financial assistance to landowners. This technical and financial assistance is delivered through five business lines. Business lines are groupings of similar products and services that NRCS employees deliver to external customers.

1. **Conservation planning and technical consultation** - NRCS provides data, information, and technical expertise that help people collect and analyze information to identify natural resource problems and conservation opportunities; clarify their objectives; and formulate and evaluate alternatives.
2. **Conservation implementation** - NRCS helps people install conservation practices and systems that meet established technical standards and specifications.
3. **Natural resource inventory and assessment** - NRCS assesses, acquires, develops, interprets, analyzes, and delivers natural resource data and information to enable knowledge-based natural resource planning and decision making at all landscape scales. Natural resource inventory and assessments to support all agency programs are conducted by NRCS's Conservation Operations and Water Resources programs. Many inventory and assessment activities provide information for multiple natural resource issues and support achievement of multiple conservation objectives. Major inventories include the Soil Survey, Snow Surveys and Water Supply Forecasting, and the National Resources Inventory (NRI).
4. **Natural resource technology transfer** - NRCS develops, documents, and distributes a wide array of technology pertaining to resource assessment, conservation planning, and installation and evaluation of conservation systems.
5. **Financial assistance** - NRCS provides financial assistance to encourage the adoption of conservation practices that have been proven to provide significant public benefits. Financial assistance is provided to participants who voluntarily enter into contracts, easements, and agreements to conserve natural resources.

Analysis of Financial Statements and Stewardship Information

NRCS produces a series of financial statements on a quarterly basis to summarize the activity and associated financial position of the agency. The four principal statements are as follows:

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

NRCS is reporting total assets of $6,049 million and total liabilities of $521 million.

NRCS strives to provide relevant, reliable, and accurate financial information related to agency activities in producing the financial statements. The following tables reflect the comparative amounts for FY 2010 and FY 2009.

Assets

NRCS reported $6,049 million in assets as of September 30, 2010, representing an increase of $855 million over the FY 2009 amounts. The higher FY 2010 asset balance was caused by an increase in the FY 2010 funding.

Assets (in millions)	FY 2010	FY 2009	Difference	Difference (Percentage)
Fund balance with Treasury	$5,786	$4,992	$794	16%
Accounts Receivable, Intragovernmental and Non-Intragovernmental, Net	20	22	(2)	(9%)
General Property, Plant and Equipment	37	50	(13)	(26%)
Total Major Categories	**5,843**	**5,064**	**779**	**15%**
Other Asset Categories	206	130	76	58%
Total Assets	**$6,049**	**$5,194**	**$855**	**16%**

Table 11: Assets as of September 30, 2010

Fund balance with Treasury (FBWT) is an asset account that represents the amount in the Agency's accounts with Treasury that is available only for the purposes for which the funds were appropriated, as discussed in Statements of Federal Financial Accounting Concepts (SFFAC) 2, Paragraph 84. According to the SFFAC, FBWT is the aggregate amount for which the Agency is authorized to make expenditures and pay liabilities. This account includes general funds, which are funds appropriated by Congress, trust funds, deposit funds, clearing accounts and funds transferred from Commodity Credit Corporation (CCC) using borrowing authority.

General Property, Plant, & Equipment (GPP&E) consists primarily of NRCS owned land and land rights, buildings, other structures and facilities, equipment, capital leases and internal-use software. GPP&E includes the book value of one heritage asset, the Tucson Plant Materials Center in Tucson, Arizona, which is classified as a multi-use asset used in government operations.

Other assets consist primarily of funds advanced to CCC and others to make payments to farmers and landowners under the Grassland Reserve Program of the Farm Bill.

Liabilities

NRCS reported $521 million in liabilities as of September 30, 2010, representing an increase of $178 million over FY 2009.

The major liability amounts include intragovernmental other liabilities, unfunded leave and Federal Employees' Compensation Act (FECA) benefits, other accrued liabilities and capital lease liabilities. The other liabilities category includes advances from others, other accrued liabilities, and accruals for payroll, travel and transportation.

Liabilities (in millions)	FY 2010	FY 2009	Difference	Difference (Percentage)
Intragovernmental Other Liabilities	$48	$39	$9	23%
Accounts Payable	11	5	6	120%
Unfunded Leave and FECA Benefits	131	121	10	8%
Capital Lease Liability	8	12	(4)	(33%)
Conservation Stewardship Liabilities	145	0	145	100%
Other Accrued Liabilities	178	166	12	7%
Total Liabilities	**$521**	**$343**	**$178**	**52%**

Table 12: Liabilities as of September 30, 2010

By law, Federal agencies cannot make outlays unless Congress has authorized and appropriated the funds and the Office of Management and Budget (OMB) has provided an apportionment. A portion of liabilities reported on the Balance Sheet is currently not funded by budgetary resources. Examples include unfunded employee costs for annual leave earned but not yet taken, and FECA benefits that are accrued to cover liabilities associated with employee deaths, disabilities, medical, and other approved costs for which funds have not yet been appropriated. These liabilities will be paid at the time the event occurs and will be expended from the current appropriations available at that time.

The majority of the liabilities generated by NRCS are for contracts and agreements with producers and other landowners to provide technical and financial assistance for conservation programs including the Conservation Stewardship Program. A number of these are long-term contracts and agreements covering 10 years or longer, depending on authority.

Net Position

NRCS reported a net position of $5,528 million as of September 30, 2010, representing an increase of $677 million over FY 2009. Net position represents unexpended appropriations consisting of undelivered orders, as well as unobligated funds, and the cumulative results of operations.

Unexpended appropriations reflect the spending authority made available by appropriation that is not currently obligated, or has been obligated but not disbursed or accrued, and therefore is unavailable for new obligations. Cumulative results of operations reflect the cumulative effect of financing in excess of expenditures and non-expenditure transfers from CCC.

Net Position (in millions)	FY 2010	FY 2009	Difference	Difference (Percentage)
Unexpended Appropriations	$935	$1,144	($209)	(18%)
Cumulative Results of Operations	4,593	3,707	886	24%
Total Net Position	**$5,528**	**$4,851**	**$677**	**14%**

Table 13: Net Position as of September 30, 2010

Net Cost of Operations

NRCS's net cost of operations was $3,452 million as of September 30, 2010, representing an increase of $582 million over FY 2009.

Net Cost of Operations (in millions)	FY 2010	FY 2009	Difference	Difference (Percentage)
Gross Cost	$3,565	$2,975	$590	20%
Less Total Earned Revenue	113	105	8	8%
Total Net Cost of Operations	**$3,452**	**$2,870**	**$582**	**20%**

Table 14: Net Cost of Operations for the year ended September 30, 2010

Earned revenue includes cost-share agreements with state and local government agencies, which is recorded as a Budgetary Resource once collected from colleges and universities, tribes, and other individuals to share in the cost of performing conservation activities. NRCS also enters into reimbursable agreements with other federal agencies for providing technical assistance under the Economy Act.

Costs

NRCS program costs were $3,565 million as of September 30, 2010, representing a $590 million increase over FY 2009. This is due to increases in Farm Bill funding.

Budgetary Resources

NRCS's total budgetary resources were $6,258 million in FY 2010. Total budgetary resources in fiscal year 2010 reflected a net increase of $851 million mostly due to increases in the Environmental Quality Incentive Program, Conservation Stewardship Program, and Wetlands Reserve Program.

Budgetary Resources (in millions)	FY 2010	FY 2009	Difference	Difference (Percentage)
Budgetary Resources	$6,258	$5,407	$851	16%

Table 15: Budgetary Resources for the year ended September 30, 2010

Analysis of Systems, Controls and Legal Compliance

FY 2010 Financial Statement Audit Report Results

In FY 2010 KPMG LLP, an independent audit firm was engaged to audit the financial statements of NRCS. The auditors identified internal control deficiencies resulting in seven material weaknesses and one finding of non-compliance with laws and regulations. Two significant deficiencies from the 2008 and 2009 financial audits were elevated to material weaknesses and one deficiency regarding non-compliance with laws and regulations was closed.

Federal Managers' Financial Integrity Act (FMFIA) of 1982

NRCS management suspended A-123 testing in FY 2010 to focus on the development of policies, procedures, and related training. These initiatives will assist NRCS in moving toward an unqualified audit opinion and will further its ability to enhance compliance testing through its A-123 program. In the second quarter of FY 2011, NRCS plans to deploy a more robust A-123 program to monitor the effectiveness of its revised policies and procedures.

NRCS cannot provide reasonable assurance that internal controls are operating effectively as of September 30, 2010.

NRCS had five repeat material weaknesses and two new material weaknesses. Two weaknesses were reported as significant deficiencies in fiscal years 2008 and 2009.

Material Weaknesses still in effect are:

- Improved accounting and controls needed over undelivered orders;
- Improved accounting and controls needed over the revenue and unfilled customer order process;
- Improved accounting and controls needed for accrued expenses;
- Improved accounting and controls needed for property, plant, and equipment; and
- Improved controls are needed over financial reporting.

The new Material Weaknesses are:

- Improved general and application access controls needed; and
- Improved controls needed over purchase and fleet card transactions.

Federal Managers' Financial Integrity Act Action Plans

The following table provides information regarding the status of corrective action plans for all existing material weaknesses and significant deficiencies.

Identifier	Short Title	Weakness Category	Year Identified	Original Estimated Completion Date	Actual Completion Date	Revised Completion Date
Section 2: Internal Controls						
OIG-10401-2-FM/ 3-FM/4-FM	Undelivered Orders	MW	2008/2009/2010	09/15/2010		TBD
OIG-10401-2-FM/ 3-FM/4-FM	Unfilled Customer Orders	MW	2008/2009/2010	09/15/2010		TBD
OIG-10401-2-FM/ 3-FM/4-FM	Accrued Expenses	MW	2008/2009/2010	09/15/2010		TBD
OIG-10401-2-FM/ 3-FM/4-FM	Property, Plant & Equipment	MW	2008/2009/2010	08/15/2010		TBD
OIG-10401-2-FM/ 3-FM/4-FM	Financial Reporting	MW	2008/2009/2010	02/28/2012		TBD
OIG-10401-4-FM	General and Application Access Controls	MW	2010	TBD		
OIG-10401-2-FM/ 3-FM	General and Application Access Controls	SD	2008/2009	07/15/2010	08/12/2010	
OIG-10401-4-FM	Controls over purchase and fleet card transactions	MW	2010	TBD		
OIG-10401-2-FM/ 3-FM	Controls over purchase and fleet card transactions	SD	2008/2009	09/30/2010		TBD
Section 4: Financial Management System Non Conformance						
OIG-10401-2-FM/ 3-FM/4-FM	Non- Compliance with FFMIA	NC	2008/2009/2010	02/28/2012		TBD

Weakness Categories: SD = Significant Deficiency MW = Material Weakness NC = Non-Compliance

Table 16: Federal Managers' Financial Integrity Act corrective action plans

Compliance with Laws and Regulations

NRCS is not in compliance with FFMIA. NRCS has resolved the finding of non-compliance with laws and regulations regarding appropriation law. Policy required that obligations be recorded prior to payment and monitoring was conducted to ensure compliance.

Identifier	Short Title	Weakness Category	Year Identified	Original Estimated Completion Date	Actual Completion Date	Revised Completion Date
OIG-10401-2-FM/ 3-FM/4-FM	Non- Compliance with FFMIA	NC	2008/2009/2010	02/28/2012		TBD
OIG-10401-2-FM/ 3-FM	Obligations not reported at the transaction level as required by Appropriation Law	NC	2008/2009	09/15/2010	09/15/2010	

Weakness Categories: NC = Non-Compliance

Table 17: Compliance with Laws and Regulations corrective action plans

Internal Controls over Financial Reporting (OMB Circular A-123, Appendix A)

NRCS management suspended A-123 testing in FY 2010 to focus on the development of policies, procedures, and related training. These initiatives will assist NRCS in obtaining a clean financial audit opinion and will further its ability to enhance its A-123 program. In the second quarter of FY 2011, NRCS plans to deploy a more robust A-123 program reflective of the revised policies and procedures. The following table outlines deficiencies noted as a result of our limited A-123 testing. The A-123 corrective action plans will be addressed when the new, improved A-123 system is implemented. At that time, these corrective action plans will be revised and/or new ones will be developed.

Identifier	Short Title	Weakness Category	Year Identified	Original Estimated Completion Date	Actual Completion Date	Revised Completion Date
Section 2: Internal Control						
Deficiencies Noted as a Result of A-123 Testing:						
2008.10.09.001	Financial Reporting- ULO's	MW	2008	09/30/2009		TBD
10.2008.GM.003	Grants Mgmt - Accruals	MW	2008	02/28/2010		TBD
10.2008.PM.001	Property Management	MW	2008	09/30/2010		TBD
10.2008.KPMG.006	FY08 KPMG Audit Finding - General Computer Controls	SD**	2008	07/15/2009		TBD
10.2008.PCM.001	Purchase Card Management	SD**	2008	10/01/2009		TBD
2008.10.07.001	Grants Mgmt / Budget Approval Process	CD	2008	04/30/2009		TBD
10.2008.HRM.001	Leave Error Report	CD	2008	02/28/2009		TBD
2008.10.03.001	Timesheet Verification and Certification	CD	2008	12/31/2009		TBD
2009.10.09.001	Financial Reporting Process	CD**	2008 / 2009	04/30/2009		TBD
2008.10.16.001	Reimbursable Agreements	CD**	2008	01/31/2010		TBD

Weakness Categories: CD = Control Deficiency SD = Significant Deficiency MW = Material Weakness ** Will be reclassed to a MW in 2011

Table 18: Internal Controls over Financial Reporting action plans

Federal Financial Management Improvement Act (FFMIA) of 1996

NRCS management evaluated its financial management systems under FFMIA for the period ended September 30, 2010. Based on the results of our evaluation, we have determined that beginning net position balances and current year activity; recoveries of prior year obligations; obligations incurred, including accrued expenses and undelivered orders; leases; accounts receivables; and unfilled customer orders were not properly recorded in accordance with Federal accounting standards. Additionally, NRCS is unable to capture and properly report information in the Statement of Net Cost and the related footnote in accordance with U.S. GAAP. Stewardship information in incomplete and inaccurate, and is not in accordance with SFFAS 29.

Additionally, NRCS did not use USSGL appropriate posting models for recoveries of prior year obligations paid and unpaid, allowances relating to bad debt, advances to and from others, and accounts receivables with the public. For Information Security, Policies, Procedures and Practices, deficiencies were noted for remote access, application-level access, and active directory network-level access.

Identifier	Short Title	Year Identified	Original Estimated Completion Date	Actual Completion Date	Revised Completion Date
Section 1: Federal Financial Management Systems Requirements					
OIG-10401-2-FM/ 3-FM/ 4-FM	Statement of Net Cost	2008/2009/2010	02/28/2012		TBD
OIG-10401-2-FM/ 3-FM/ 4-FM	Stewardship Reporting	2008/2009/2010	02/28/2012		TBD
Section 2: Applicable Federal Accounting Standards					
OIG-10401-2-FM/ 3-FM/ 4-FM	Beginning net position balances and current year activity; recoveries of prior year obligations; obligations incurred including undelivered orders; leases; accounts receivables; and unfilled customer orders were not recorded in accordance with Federal accounting standards.	2008/2009/2010	02/28/2012		TBD
OIG-10401-2-FM/ 3-FM/ 4-FM	Statement of Net Cost	2008/2009/2010	02/28/2012		TBD
OIG-10401-2-FM/ 3-FM/ 4-FM	Stewardship Reporting	2008/2009/2010	02/28/2012		TBD
Section 3: Standard General Ledger at the Transaction Level					
OIG-10401-2-FM/ 3-FM/ 4-FM	USSGL compliant posting models for: recovereies of prior year obligations paid and unpaid; allowances relating to bad debt; advances to and from others; and accounts receivables from the public.	2008/2009/2010	02/28/2012		TBD
Section 4: Information Security, Policies, Procedures and Practices					
OIG-10401-2-FM/ 3-FM/ 4-FM	General and Application Access Controls	2008/2009	07/15/2010	08/12/2010	
OIG-10401-4-FM	General and Application Access Controls	2010	TBD		

Table 19: Federal Financial Management Improvement Act action plans

Federal Information Security Management Act (FISMA)

FISMA provides the framework for securing the Federal Government's 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 independent OIG evaluations.

Security audit findings, security deficiencies identified in the systems certifications and accreditations process, and security deficiencies identified in self-assessments are listed and 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.

In FY 2010, deficiencies were noted for remote access, application-level access, and active directory network-level access.

Improper Payments Information Act (IPIA)

The IPIA requires each Federal agency to assess all programs and identify which, if any, program(s) may be subject to high risk with respect to improper payments. Agencies are also required to implement corrective measures. For 2010, NRCS was required to perform a statistical sample on the Food, Conservation and Energy Act of 2008 program. The testing resulted in potential overpayments totaling $6,158,280 which represents a rate of 0.41 percent.

Program	WHIP	EQIP	EQIP GSW	CSTP	Total
Sample Amount	$30,388	$555,354	$40,439	$238,976	$865,157
Number of Transactions Tested	4	68	2	21	95

Table 20: Programs tested for IPIA

Three Year Trend (in millions)			
	Reported in FY 2008	Reported in FY 2009	To be Reported in FY 2010
Outlays	$1,138	$1,320	$1,505
Improper Payment Rate (%)	0.00%	0.03%	0.41%
Improper Payments ($)	0	0	6
Year of data sampled	2007	2008	2009

Table 21: Three Year Trend

In 2009, one payment for $379 was found out of a sample size of $1,415,577, yielding an error rate of .03%. In 2010, the sample size decreased to $865,157 and one improper payment in the amount of $3,526 was found, yielding an error rate of .41%. Given the increase in the outlays, the extrapolated improper payment dollar amount increased from $353,457 in 2009 to $6,158,280 in 2010.

Anti-Deficiency Act

No violations of the Anti-Deficiency Act were identified or reported in FY 2010.

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.

NRCS 4th Quarter GAO/OIG Active Audits Summary Report - FY 2010

The GAO/OIG Active Audits Summary report contains comments and updates provided by the Deputy Area point of contact (POC) received in response to an internal NRCS request in September 2010. This quarterly report provides an overview of the current external audit activities in progress within the Agency. The reports and NRCS actions are as follows:

Audit Number/Name	Final Report Date	Audit Status
OIG 10099-3-CH - FRPP Controls		OPEN
OIG-10099-6-SF - FRPP - Review of NGOs	07/06/2009	OPEN
OIG-10601-1-At - Dam Rehab	07/15/2009	OPEN
OIG-10601-6-KC - Disaster Assistance EWP		OPEN
OIG-50601-10-Hq - Chesapeake Bay	10/01/2006	CLOSED
GAO-360644 - USDA Funding for EQIP	09/01/2006	OPEN
OIG-10601-04-KC - CSP	06/01/2009	OPEN
OIG-50601-18-Te - PRF Pilot Program	09/29/2010	OPEN
GAO 450760 - OPM Work/Life		OPEN
GAO130975 - Employee and Training Programs		OPEN
OIG-10401-2-FM - Financial Audit FY08	11/13/2008	OPEN
OIG-10401-3-FM - Financial Audit FY09	11/10/2009	OPEN
GAO-361185 - Renew Energy Init		OPEN
361216 - Chesapeake Bay Action Plan		OPEN
OIG 03601-51-TE - CRP Soil Rental Rates		OPEN
OIG-10703-1-KC - ARRA - EWP FPE	09/01/2010	OPEN
OIG-10703-2-KC - Flood Prevention Operations		OPEN
OIG-10703-2-KC-(2) - ARRA - WPFPO	12/16/2009	OPEN
OIG-10703-3-KC - ARRA - EWP FPE (2)		OPEN
GAO-320572 - Provincial Reconstruction Team (PRT) staffing in Iraq and Afghanistan (GAO-09-86R)	10/01/2008	CLOSED
GAO-360777 - USDA Civil Rights Performance	05/01/2008	CLOSED
GAO-360978 - USDA Bio Fuel Effort (GAO-09-446)	10/02/2009	CLOSED
GAO-450241 - Review of Administrative Remedies in the Federal Employee EEO Complaint Process	08/12/2009	CLOSED
OIG 50703-1-DA - ARRA of 2009 Recipient Reporting	07/01/2010	CLOSED
OIG 50801-1-TE - Urban Resources Partnership Program (URP)	11/01/1999	CLOSED
OIG-10099-10-KC - Homeland Security, NRCS Protection of Federal Asset	09/01/2003	CLOSED
OIG-50099-11-SF - Crop Base Acres on Conservation Easement Lands	08/01/2007	CLOSED
OIG-50601-10-Hq - Chesapeake Bay Restoration-Agricultural Impact on Water Quality	10/01/2006	CLOSED

Table 22: GAO/OIG Active Audits Summary Report - FY 2010

Other Management Information, Initiatives and Issues

American Reinvestment and Recovery Act (ARRA)

NRCS has obligated over 99% of the funding available under the American Reinvestment and Recovery Act of 2009.

Additional information can be viewed at the NRCS website:
http://www.usda.gov/wps/portal/usda/arra?navid=USDA_RECOVERY

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 overarching 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.
- Ensure Science-based Assistance – The new business model will enhance NRCS's ability to deliver science-based products and services.

CDSI is organized and staffed in the Office of the NRCS Chief to ensure an integrated (not stove-piped) approach Agency-wide. Five major initiatives are being implemented during 2010-2014 that will allow field staff to spend as much as 75% of their time in the field with clients, minimize duplicate or excessive data entry for staff and clients, reduce clerical (non-technical) workload burden from the field planners, provide clients 24/7 access to USDA conservation programs, ensure sound conservation plans support all financial assistance, significantly shorten the administrative time for program delivery, and strengthen financial management of Farm Bill programs.

Financial Management Initiatives

NRCS management recognizes that in order to remediate its audit deficiencies, substantial improvements must be made on several fronts. Key elements of the remediation plan are as follows:

- The agency is in the process of strengthening its financial management leadership, technical experience, and depth.
- During FY 2010 and continuing into FY 2011, NRCS management is prioritizing the development of updated policies, procedures and training in an effort to remediate and proactively anticipate control weaknesses.
- In FY 2011, a more robust A-123 program will be developed and implemented. Compliance testing will be performed on a quarterly basis.
- In FY 2010, 18 states were visited to strengthen relationships between NHQ and the states and to correct balances.
- In FY 2011, financial management plans to establish a State Financial Management Team to support audit remediation efforts and other financial management requirements.
- In November 2011, NRCS will be converting from its current financial management system (FFIS) to a SAP system, Financial Management Modernization Initiative (FMMI). NRCS is developing modifications to internal feeder systems, establishing master data, and cleansing open transactions and balances.

In light of the above initiatives, NRCS is beginning to accelerate its progress toward its goal of a clean audit opinion. NRCS recognizes the need to be a good steward of taxpayer dollars along with helping people help the land.

Limitations of Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the NRCS, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with GAAP for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

These statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Natural Resources Conservation Service

BALANCE SHEET

As of September 30, 2010

(in millions)

Assets:		
Intragovernmental:		
Fund balance with Treasury	Note 2	$5,786
Accounts receivable	Note 3	16
Other	Note 6	195
Total intragovernmental		5,997
Accounts receivable, net	Note 3	4
General property, plant and equipment, net	Note 4	37
Other	Note 6	11
Total assets		**$6,049**
Stewardship PP&E	Notes 5 & 13	
Liabilities:		
Intragovernmental:		
Other	Notes 7 & 8	$48
Total intragovernmental		48
Accounts payable		11
Federal employee and veterans benefits	Note 7	37
Unfunded leave	Note 7	86
Capital lease liability	Note 9	8
Other	Note 8	331
Total liabilities		**$521**
Commitments and contingencies	Note 10	
Net position:		
Unexpended appropriations		935
Cumulative results of operations		4,593
Total net position		**$5,528**
Total liabilities and net position		**$6,049**

The accompanying notes are an integral part of these statements.

Unaudited – See accompanying auditors' report

Natural Resources Conservation Service

STATEMENT OF NET COST
For the Year Ended September 30, 2010
(in millions)

Program costs:	Notes 11,12 & 14	
Assist Rural Communities to Create Prosperity so they are Self-Sustaining, Re-populating, and Economically Thriving:		
Gross costs		$107
Less: earned revenue		4
Net Program Costs		103
Ensure our National Forests and Private Working Lands are Conserved, Restored, and made more Resilient to Climate Change, while Enhancing our Water Resources		
Gross costs		3,450
Less: earned revenue		108
Net Program Costs		3,342
Help America Promote Agricultural Production and Biotechnology Exports as America Works to increase Food Security:		
Gross costs		8
Less: earned revenue		1
Net Program Costs		7
Total Gross Costs:		**3,565**
Less: Total earned revenue		**113**
Net cost of operations		**$3,452**

The accompanying notes are an integral part of these statements.

Unaudited – See accompanying auditors' report

Natural Resources Conservation Service

STATEMENT OF CHANGES IN NET POSITION

For the Year Ended September 30, 2010

(in millions)

Cumulative Results of Operations:	
Beginning Balance	$3,707
Budgetary Financing Sources:	
Appropriations used	1,218
Transfers in/out without reimbursement	2,939
Other Financing Sources (Non-Exchange):	
Transfers in/out without reimbursement	2
Imputed financing	179
Total Financing Sources	4,338
Net Cost of Operations	(3,452)
Net Change	886
Cumulative Results of Operations	$4,593
Unexpended Appropriations:	
Beginning Balance	$1,144
Budgetary Financing Sources:	
Appropriations received	1,010
Other adjustments	(1)
Appropriations used	(1,218)
Total Budgetary Financing Sources	(209)
Total Unexpended Appropriations	$935
Net Position	**$5,528**

The accompanying notes are an integral part of these statements.

Unaudited – See accompanying auditors' report

Natural Resources Conservation Service

STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2010

(in millions)

Budgetary Resources:	
Unobligated balance, brought forward, October 1	$1,768
Recoveries of prior year unpaid obligations	384
Budget Authority:	
Appropriations	1,010
Spending authority from offsetting collections	
Earned	
Collected	113
Change in receivables from Federal sources	1
Change in unfilled customer orders	
Advance received	(3)
Without advance from Federal sources	46
Budget Authority Subtotal	**$1,167**
Nonexpenditure transfers, net, actual	2,939
Total budgetary resources:	**$6,258**
Status of Budgetary Resources:	
Obligations incurred:	
Direct	$4,414
Reimbursable	156
Subtotal	**4,570**
Unobligated balance:	
Apportioned	403
Unobligated balance not available	1,285
Total status of budgetary resources	**$6,258**
Change in Obligated Balance:	
Obligated balance, net	
Unpaid obligations, brought forward, October 1	$3,321
Uncollected customer payments from Federal sources, brought forward, October 1	(97)
Total unpaid obligated balance, net	**3,224**
Obligations incurred, net	4,570
Gross outlays	(3,265)
Recoveries of prior year unpaid obligations, actual	(384)
Change in uncollected customer payments from Federal sources	(47)
Obligated balance, net, end of period	
Unpaid obligations	4,242
Uncollected customer payments from Federal sources	(144)
Total, unpaid obligated balance, net, end of period	**$4,098**
Net Outlays:	
Gross outlays	3,265
Offsetting collections	(110)
Net Outlays	**$3,155**

The accompanying notes are an integral part of these statements.

Unaudited – See accompanying auditors' report

Notes to the Financial Statements for the year ended September 30, 2010

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. 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 Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994.

Most of the nearly 12,000 NRCS employees work in approximately 2,700 field offices across the nation, providing services directly to our customers. Field office employees provide the technical expertise that helps enable land managers to balance their economic goals with the needs of the natural environment, while creating sustainable systems to produce abundant crops, livestock, and a quality environment. Field office staff work side by side with employees of the local conservation districts and state conservation agencies. Natural resource technology is developed and delivered through national centers (that focus on areas including cartography and geospatial; design, construction and soil mechanics; plant data; soil survey; water management; and water and climate) and National Technology Support Centers (NTSC). The NTSCs develop and maintain national technical standards and other technological procedures and references.

NRCS operates under the guidance of the USDA Under Secretary for Natural Resources and Environment. The NRCS mission is carried out across 3 regions covering all 50 States, Caribbean Area (Puerto Rico), and the Pacific Basin Area; 3 National Technology Support Centers, and 11 National Centers. The centers were established to provide focus on national initiatives and provide coordination and assistance for conservation work on a functional basis in support of all 50 states.

Discretionary Programs

NRCS has discretionary funding appropriated by Congress to provide technical and financial assistance under five major programs: Conservation Operations, Resources Conservation and Development, Watershed and Flood Prevention, Healthy Forest Reserve Program, and Watershed Rehabilitation Program. Program categories under the Conservation Operations program include Conservation Technical Assistance, Soil Surveys, Snow Surveys and Water Supply Forecasting, and Plant Materials Centers. Program categories under the Watershed and Flood Prevention program include Public Law (PL) 534 Flood Prevention Operations, PL-566 Small Watershed Operations, and Emergency Watershed Protection. The Emergency Watershed Protection program is only funded when natural disasters occur and Congress appropriates supplemental funding.

Farm Bill Programs

The 2002 and 2008 Farm Bills authorized NRCS to be responsible for administering 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. The authorizing language in the 2008 Farm Bill specified that the funds, facilities, and authorities of CCC be used to administer various conservation programs.

NRCS receives mandatory funding from the 2008 Farm Bill to provide technical and financial assistance for the following programs: Wetlands Reserve Program, Healthy Forest Reserve Program, Farm and Ranchlands Protection Program, Environmental Quality Incentives Program which includes Agricultural Water Enhancement Program, Wildlife Habitat Incentives Program, Conservation Stewardship Program, Grassland Reserve Program, Agricultural Management Assistance Program, Conservation Reserve Program and the Chesapeake Bay watershed initiative. 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. Funding for Ground & Surface Water and Conservation Security Program was discontinued; however the expired funds are available for contract overages. In addition to the programs mentioned above, NRCS has four other initiatives. Three are authorized through the Farm Bill (Cooperative Conservation Partnership Initiative (CCPI), Conservation of Private Grazing Land (CPGL) and Socially Disadvantaged Ranchers and Beginning Farmers (SDRBR). Conservation Innovation Grants (CIG) is funded through EQIP and is a voluntary program which 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. Under CCPI, NRCS enters into partnership agreements with eligible entities that want to enhance conservation outcomes on agricultural and nonindustrial private forest lands. CPGL is not currently funded. The CPGL initiative will ensure technical, educational, and related assistance is provided to those who own private grazing lands. SDRBR is funded through EQIP and CSP and provides voluntary participation, offers incentives, and focuses on the equity in accessing U.S. Department of Agriculture programs and services.

Authorized funding for the Farm Bill Programs approximated $2.9 billion for FY 2010.

B. Basis of Presentation and Accounting

The Balance Sheet (BS), Statement of Net Cost (SNC), Statement of Changes in Net Position (SCNP), and the Statement of Budgetary Resources (SBR) (hereinafter referred to as the "financial statements") were prepared to report the financial position, net costs, changes in net position, and budgetary resources of NRCS. The financial statements have been prepared from the books and records of NRCS in accordance with U.S. generally accepted accounting principles and in accordance with OMB Circular A-136, *Financial Reporting Requirements*, revised September 29, 2010, with the exception that the statements are not presented comparatively due to a disclaimer of opinion in FY 2009.

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 principles are designed to recognize the obligation of funds when actions occur that require the Government to make a payment in the future. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds.

C. Fund Balance with the U.S. Treasury

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

D. Accounts Receivable

Accounts receivable transactions are processed by National Finance Center (NFC) Administrative Billings and Collections (ABCO) staff. ABCO establishes receivables, generates billing statements, manages aging activities, accrues interest and penalty charges, assesses administrative fees, and processes collections. An allowance for doubtful accounts is recorded quarterly for receivables with the public for the amount of receivables determined to be uncollectible based on historical experience.

E. General Property, Plant, and Equipment

General property, plant, and equipment (PP&E) includes real and personal property used in normal business operations, including NRCS's one multi-use heritage asset, the Tucson Plant Material Center (see note 5). Real and personal property are recorded at cost and have an estimated useful life of 2 years or more. NRCS's 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 2 year (or greater) useful life. NRCS reports capital lease assets and liabilities in conformance with Office of Management and Budget (OMB) Circular A-11: Preparation, Submission, and Execution of the Budget and Statements of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities for the Federal Government* and SFFAS No. 6, *Accounting for Property, Plant and Equipment*. Under SFFAS No. 6 the cost of general PP&E acquired under a capital lease is equal to the amount recognized as a liability for the capital lease at its inception (net present value of the lease payments) unless the net present value exceeds the fair value of the asset.

F. Other Assets

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/expenses when the related goods and services are received. The most significant advance by NRCS is for the Grasslands Reserve Program (GRP) as a part of the Farm Bill. The funding for GRP is transferred to NRCS from CCC as a non-expenditure transfer once the apportionment schedule is approved by OMB. NRCS immediately advances the funds back to CCC to make payments to the landowners in the program on behalf of NRCS. CCC reports the actual GRP expenditures to NRCS on a monthly basis and NRCS makes appropriate adjustments to record the expense and decrease the advance because NRCS maintains administrative responsibility for the program.

G. Liabilities

Liabilities represent the probable and measurable future outflow of funds or other resources arising from past transactions or events. In general, funds cannot be withdrawn from the U.S. Treasury without an appropriation from Congress. Liabilities, for which there is no appropriation and for which there is no certainty that an appropriation will be enacted, are classified as unfunded liabilities.

H. Workers Compensation Liability

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

I. Employee Annual, Sick, and Other Leave

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

J. Pension and Other Retirement Benefits

NRCS employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The employees who participate in CSRS are beneficiaries of the NRCS's matching contribution, equal to 7.0 percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund.

FERS went into effect on January 1, 1987, pursuant to PL 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 join FERS and Social Security or remain in CSRS. FERS offers a savings plan to which NRCS automatically contributes one percent of pay and matches an employee contribution up to an additional four percent of pay. For FERS participants, NRCS also contributes the employer's matching share for Social Security.

NRCS recognizes the imputed cost of pension, other health and life insurance retirement benefits during the employees' 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 the current period expense reporting.

K. Revenues and Other Financing Sources

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

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

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

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

L. Imputed Financing

NRCS recognizes the amount of accrued pension and post-retirement 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. Additionally, NRCS recognizes imputed financing of $178 million in FY 2010 for USDA headquarters services.

M. Use of Estimates

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

Note 2 - Fund Balance with Treasury

Funds with Treasury are primarily general (appropriated and transferred-in) and trust funds that are available to pay liabilities and finance authorized purchase commitments.

Fund Balance with Treasury (in millions)	2010
Fund Balances:	
Trust Funds	$2
General Funds	5,783
Other Fund Types	1
Total	**$5,786**

Table 23: Fund Balance with Treasury as of September 30, 2010

Status of Fund Balance with Treasury (in millions)	2010
Unobligated Balance:	
Available	$403
Unavailable	1,285
Obligated balance not yet disbursed	4,098
Total	**$5,786**

Table 24: Status of Fund Balance with Treasury as of September 30, 2010

Note 3 – Accounts Receivable, Net

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

Accounts receivable with the public is comprised primarily of cost share agreements with state and local governments owed to NRCS for providing technical assistance on conservation projects. An allowance for receivables deemed uncollectible is based on historical experience.

Accounts Receivable (in millions)	2010
Accounts Receivable, Gross	
Intragovernmental	$16
With the Public	5
Allowance	
Intragovernmental	0
With the Public	1
Accounts Receivable, Net	
Intragovernmental	16
With the Public	4
Total	**$20**

Table 25: Accounts receivable as of September 30, 2010

Note 4 – General Property, Plant, and Equipment, 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.

General Property, Plant, and Equipment, Net (in millions)	Estimated Useful Life (Years)	Cost	Accumulated Depreciation and Amortization	Net Book Value
Personal Property:				
Equipment	5 – 20	$81	($71)	$10
Internal Use Software	5	38	(22)	16
Total Personal Property		119	(93)	26
Real Property:				
Land and Land Rights		3	0	3
Buildings, Improvements and Renovations	15 – 30	9	(6)	3
Other Structures & Facilities	15 – 30	3	(3)	0
Assets under Capital Leases	Varies	13	(8)	5
Total Real Property		28	(17)	11
Total		**$147**	**($110)**	**$37**

Table 26: General PP&E as of September 30, 2010

Note 5 – Stewardship PP&E

The objective of Federal stewardship reporting is to report an entity's stewardship PP&E, along with certain responsibilities that cannot be measured in traditional financial reports. Stewardship PP&E includes one historically significant heritage asset and stewardship land.

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 land.

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. The specific uses for the land are identified under each program. Landowners are not allowed to withdraw from the program; however termination or expiration may occur.

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, protect farmland, restore and protect grassland, restore and protect 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 five different programs. For the purpose of stewardship asset reporting, all easements where NRCS is the grantee of the easement are included as stewardship land. Also included are easements that are administered by NRCS on behalf of other USDA agencies. As of September 30, 2010, NRCS had 11,085 conservation easements classified as stewardship land.

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 currently 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 (NRHP) on July 2, 1997. The TPMC develops and evaluates native plants and addresses an array of resource issues in the areas of rangeland, mined land, urban lands, cropland riparian areas, and desert lands. The TPMC provides technical assistance to NRCS field offices, Resource Conservation and Development (RC&D) groups, conservation districts, Federal, State, and Tribal agencies, and private landowners through the greater Southwest.

Stewardship PP&E (in numbers)	2009 Balance	Additions (+)	Withdrawals (-)	2010 Balance
Heritage Assets				
Research Centers	1	0	0	1
Stewardship Land				
Conservation Easements	10,834	251	0	11,085

Table 27: Stewardship easements as of September 30, 2010

Note 6 - Other Assets

Other Assets – Intragovernmental is comprised of funds advanced to other Federal agencies. Most of this balance is represented by the funds advanced to CCC to make payments to landowners under the Grassland Reserve Program. Other Assets with the Public is comprised of funds advanced to state and local governments and non-Federal business entities through grants.

Other Assets (in millions)	2010
Intragovernmental	$195
With the Public	11
Total	**$206**

Table 28: Balance of Other Assets as of September 30, 2010

Note 7 – Liabilities Not Covered by Budgetary Resources

Other Intragovernmental Liabilities Not Covered by Budgetary Resources are primarily comprised of Federal Employee Compensation Act (FECA) accruals.

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

Liabilities Not Covered by Budgetary Resources (in millions)	2010
Intragovernmental:	
FECA	$7
Custodial liabilities	1
Subtotal Intragovernmental	**8**
With the Public:	
Unfunded leave	86
Federal employee & veterans benefits	37
Subtotal with the public	**123**
Total liabilities not covered by budgetary resources	131
Total liabilities covered by budgetary resources	390
Total liabilities	**$521**

Table 29: The balance of liabilities not covered by budgetary resources as of September 30, 2010

Note 8 - Other Liabilities

Other liabilities include but are not limited to grants payable, advances and prepayments from others, and accrued liabilities. NRCS's other liabilities include intragovernmental and those with the public as presented in Table 29.

Other Liabilities (in millions)	Fiscal Year 2010		
	Non-Current	Current	Total
Intragovernmental:			
Other Accrued Liabilities	$0	$30	$30
Employee contributions & payroll taxes	0	10	$10
Unfunded FECA Liability	7	0	$7
Custodial Liability	0	1	$1
Total Intragovernmental	**$7**	**$41**	**$48**
With the Public:			
Conservation Stewardship Liabilities	0	145	$145
Other Accrued Liabilities	0	186	$186
Total With the Public	**$0**	**$331**	**$331**
Other accrued liabilities consist primarily of accruals for payroll and for receipt of goods and services not yet invoiced.			

Table 30: Other Liabilities as of September 30, 2010

Note 9 – Leases

NRCS has entered into leasing agreements with the General Services Administration (GSA) and other parties through leasing authority delegated by GSA for general facilities (buildings and office space), equipment and land for its Plant Materials Centers and other operations across the Nation. Leases may include renewal options for periods of one or more years. Most leases are subject to cancellation upon certain funding conditions and all are covered by budgetary resources. Capital lease assets and future payment information for capital and operating leases are shown in the tables below. NRCS enters into operating leases primarily for office space. The lease arrangements generally range from five to 10 years.

Entity as Lessee: Capital Leases	FY 2010 (in millions)
Summary of Assets Under Capital Leases	
Land and Buildings	$13
Accumulated Amortization	8
Unamortized Capital Leases	$5

Table 31: Capital Leases Summary as of September 30, 2010

Capital Leases - Future Payments Due:	Land and Buildings (in millions)
Year 1 (2011)	$3
Year 2 (2012)	2
Year 3 (2013)	2
Year 4 (2014)	2
Year 5 (2015)	2
After 5 Years	2
Total Future Lease Payments	**$13**
Less: Imputed Interest	1
Less: Executory Costs	4
Net Capital Lease Liability	**8**
Lease liabilities covered by budgetary resources	8
Lease liabilities not covered by budgetary resources	0

Table 32: Total Capital Leases Future Payments

Operating Leases - Future Payments Due:	Land and Buildings (in millions)
Year 1 (2011)	$22
Year 2 (2012)	18
Year 3 (2013)	15
Year 4 (2014)	14
Year 5 (2015)	12
After 5 Years	28
Total Future Lease Payments	**$109**

Table 33: Total Operating Leases Future Payments

Note 10 – Commitments and Contingencies

NRCS is subject to claims and contingencies related to lawsuits as well as commitments under contractual and other commercial obligations. No amount has been accrued in the September 30, 2010 consolidated financial statements where the amount is uncertain or where the probability of judgment against NRCS is remote. NRCS has no probable or reasonably possible contingencies.

Note 11 – Intragovernmental Costs and Exchange Revenue

NRCS accomplishes its mission through three USDA goals: 1) To Assist Rural Communities to Create Prosperity so they are Self-Sustaining, Re-populating and Economically Thriving; 2) Ensure our National Forests and Private Working Lands are Conserved, Restored and made more Resilient to Climate Change, While Enhancing our Water Resources; and 3) Help America Promote Agricultural Production and Biotechnology Exports as America Works to increase Food Security. Activities in these areas are with both Federal and non-Federal partners. Costs and exchange revenue are disclosed as Intragovernmental or With the Public based on the related source or customer, respectively. The following table depicts the cost and exchange revenue by mission goal for the year ended September 30, 2010.

Intragovernmental Costs and Exchange Revenue (in millions)	FY 2010
Intragovernmental Costs	
Assist Rural Communities to Create Prosperity so they are Self-Sustaining, Re-popluating, and Economically Thriving	$17
Ensure our National Forests and Private Working Lands are Conserved, Restored, and made more Resilient to Climate Change, while Enhancing our Water Resources	568
Help America Promote Agricultural Production and Biotechnology Exports as America Works to increase Food Security	3
Public Costs	
Assist Rural Communities to Create Prosperity so they are Self-Sustaining, Re-popluating, and Economically Thriving	90
Ensure our National Forests and Private Working Lands are Conserved, Restored, and made more Resilient to Climate Change, while Enhancing our Water Resources	2,882
Help America Promote Agricultural Production and Biotechnology Exports as America Works to increase Food Security	5
Total Program Costs	**$3,565**
Intragovernmental Earned Revenue	
Assist Rural Communities to Create Prosperity so they are Self-Sustaining, Re-popluating, and Economically Thriving	$4
Ensure our National Forests and Private Working Lands are Conserved, Restored, and made more Resilient to Climate Change, while Enhancing our Water Resources	98
Help America Promote Agricultural Production and Biotechnology Exports as America Works to increase Food Security	1
Public Earned Revenue	
Ensure our National Forests and Private Working Lands are Conserved, Restored, and made more Resilient to Climate Change, while Enhancing our Water Resources	10
Total Program Earned Revenue	**$113**

Table 34: Costs Incurred to Protect Natural Resources for the year ended September 30, 2010

Note 12 – Suborganization Program Costs/Program Costs by Segment

NRCS reflects costs under five program responsibility segments: Conservation Operations, Watershed Programs, Watershed Rehabilitation, Resource Conservation & Development and Farm Bill. The following tables illustrate actual costs by program for the year ended September 30, 2010.

Program Costs	Gross Costs	Earned Revenue	Net Cost
Conservation Operations:			
Conservation Technical Assistance	$794	($36)	$758
Soil Surveys	104	(6)	98
Snow Surveys & Water Supply Forecast	12	0	12
Plant Materials	14	(2)	12
Total Conservation Operations	924	(44)	880
Watershed Programs:			
Watershed Surveys and Planning	0	0	0
Flood Prevention Operations (PL-534)	2	(1)	1
Emergency Watershed Protection	153	(1)	152
Watershed Operations (PL-566)	0	0	0
Flood Plain Easement Program - Recovery Act	93	0	93
Watershed Flood Prevention Operations - Recovery Act	49	0	49
Small Watershed Operations	28	(7)	21
Total Watershed Programs	325	(9)	316
Watershed Rehabilitation:			
Watershed Rehabilitation Program	33	(1)	32
Watershed Rehabilitation Program - Recovery Act	11	0	11
Total Watershed Rehabilitation	44	(1)	43
Resource Conservation & Development:			
Resource Conservation & Development	53	0	53
Total Resource Conservation & Development	53	0	53
Farm Bill:			
Environmental Quality Incentives Program	1,139	(1)	1,138
Wildlife Habitat Incentives Program	62	(2)	60
Agricultural Management Assistance	6	0	6
Agricultural Water Enhancement Program	50	0	50
Conservation Reserve Program	61	(54)	7
Conservation Security Program	233	0	233
Farm & Ranch Lands Protection Program	102	(2)	100
Grasslands Reserve Program	27	0	27
Wetlands Reserve Program	304	0	304
Conservation Stewardship Program	206	0	206
Healthy Forest Reserve Program	4	0	4
Chesapeake Bay Watershed Initiative	25	0	25
Total Farm Bill	2,219	(59)	2,160
Totals	**$3,565**	**($113)**	**$3,452**

Table 35: Costs by Program for the year ended September 30, 2010

Note 13 - Cost of Stewardship PP&E

The 2010 costs of administering the program for stewardship land amounted to $392 million, which consists primarily of easement, acquisition costs, and restoration.

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

Note 14 – Exchange Revenues

NRCS collects exchange revenue under reimbursable agreements for technical services provided to Federal and non-Federal sources at the full cost of the services to be provided. Bills are issued for actual costs in accordance with the terms of the agreements. At quarter-end, accruals are recorded for the earned, unbilled portion of each agreement. At quarter-end, an entry is recorded to estimate an allowance for possible uncollectible amounts from non-Federal sources based on the historical aging of receivables. Federal policy requires that non-federal customers be billed in advance for the entire amount of the agreement. If no advance is received, work performed should be charged to the direct appropriation until such time as the reimbursement is received.

Note 15 - Apportionment Categories of Obligations Incurred

OMB normally distributes budgetary resources in an account or fund by specific time periods, activities, projects, objects or a combination of these categories through the apportionment process. Trust fund apportionments are classified as category A and all others are category B. Category A apportionments distribute budgetary resources as needed. Category B apportionments typically distribute budgetary resources by activities, projects or objects. NRCS had no category A apportionments during FY 2010.

Note 16 - Legal Arrangements Affecting Use of Obligated Balances

NRCS has been granted extended authority for Treasury symbols 1221004, 1231004, 1241004, and 1251004 under Section 766 of Public Law 108-447 (enacted on December 8, 2004), which states 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". The majority of the unobligated balances in 1213322, 1221004, and 1231004 were returned to Treasury in FY 2009. Beginning in FY 2009, the unobligated balance for treasury symbols with extended disbursing authority were not canceled at the end of the fifth expired year; instead the unobligated balance remains in an expired status until the treasury symbol is closed or expended in accordance with OMB Circular A-11.

Note 17 - Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

The President's Budget with actual numbers for the current fiscal year has not yet been published and the release date is not known. This information can be found at http://www.whitehouse.gov/omb. Due to the FY 2009 disclaimer of opinion the comparison of the 2009 SBR to President's Budget was not disclosed.

Note 18 – Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders as of September 30, 2010, is $4.1 billion.

Note 19 – Reconciliation of Net Cost of Operations (Proprietary) to Budget

This note is intended to bridge NRCS's budgetary and financial (proprietary) accounting. It is a reconciliation that identifies total resources used by an entity during the period (budgetary and other) and makes adjustments to the resources based upon how they were used to finance net obligations or costs. The budgetary information used to calculate net obligations (the first four lines) is presented on a combined basis to enable a direct tie to the Statement of Budgetary Resources. The reconciliation explains the difference between budgetary net obligations and proprietary net cost of operations by setting forth the items that reconcile the two amounts. The budgetary net obligations and the proprietary net cost of operations are different in that (1) the net cost of operations may be financed by non-budgetary resources; (2) the budgetary and non-budgetary resources used by an agency may finance activities which are not components of the net cost of operations; and (3) the net cost of operations may contain components which do not use or generate resources in the period.

The Reconciliation of Net Cost of Operations (proprietary) to Budget for the period ended September 30, 2010 is provided in the following table.

Reconciliation of Net Cost of Operations (Proprietary) to Budget For the Year Ended September 30, 2010 (in millions)	2010
Resources Used to Finance Activities:	
Budgetary Resources Obligated	
Obligations Incurred	$4,570
Less: Spending authority from offsetting collections and recoveries	541
Obligations net of offsetting collections and recoveries	4,029
Transfers in/out without reimbursement	2
Imputed financing from costs absorbed by others	179
Total resources used to finance activities	**4,210**
Resources Used to Finance Items not Part of the Net Cost of Operations:	
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	(815)
Budgetary offsetting collections and receipts that do not effect net cost of operations	
Change in Unfilled Customer Orders	43
Resources that finance the acquisition of assets	4
Other resources or adjustments to net obligated resources that do not affect net cost of operations	(2)
Total resources used to finance items not part of the net cost of operations	(770)
Total resources used to finance the net cost of operations	**3,440**
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:	
Components Requiring or Generating Resources in Future Periods:	
Increase in annual leave liability	1
Total components of Net Cost of Operations that will require or generate resources in future periods	1
Components not Requiring or Generating Resources:	
Depreciation and amortization	7
Revaluation of assets or liabilities	3
Other components not requiring or generating resources	
Bad Debt Expense	1
Total components of Net Cost of Operations that will not require or generate resources:	11
Total components of Net Cost of Operations that will not require or generate resources in the current period	12
Net Cost of Operations	**$3,452**

Table 36: Reconciliation of Net Cost of Operations (Proprietary to Budget) for the year ended September 30, 2010

Unaudited – See accompanying auditors' report

Required Supplementary Stewardship Information

Human Capital

NRCS's investment in human capital is primarily for education and training programs intended to: (1) increase or maintain national economic productive capacity and (2) produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity. Investment in human capital is expensed each year as incurred.

National Volunteer Program

As the Nation's conservation agenda continues to become more complex, the need for technical information and advice will increasingly exceed the capacity of the Federal workforce to respond in a timely manner. Volunteering began with the organization of conservation districts in 1937. In recognition of the interest and skills many Americans have in conservation, Congress passed legislation - Section 1526 of PL97-98, Food and Agriculture Act – in 1981 permitting NRCS to use volunteers. In 1985, the volunteer effort was organized as the Earth Team. The primary purpose of the Earth Team is to expand NRCS services by using volunteer time, talent and energy to help accomplish the NRCS mission. Total investment in the NRCS National Volunteer Program was $297,820 for the five year period ending September 30, 2010.

Plant Materials Centers

NRCS Plant Materials Centers (PMC) and Plant Materials Specialists provide training to other Federal employees, state and county government employees, partners, and sometimes the public. The training consists of technical topics such as plant establishment, invasive species control and establishment of windbreaks. Training sessions may last from one hour to several days. The overall goal of the training is to increase the knowledge and expertise of NRCS staff and other conservation partners who work directly with landowners to implement conservation practices. Plant Materials Centers for this five year period ending September 30, 2010 was $170,056.80.

Resource Conservation and Development

The NRCS also invests in education and training for Resource Conservation and Development as shown in the following table.

	2006	2007	2008	2009	2010	Total Investment
Resource Conservation and Development	51	53	52	51	52	259

Table 37: NRCS Investments in Human Capital

The Resource Conservation and Development (RC&D) Program was developed under the Soil Conservation and Domestic Allotment Act, (16 U.S.C. 590a-590f), the Bankhead-Jones Farm Tenant Act, (16 U.S.C. 1010 and 1011), and the Food and Agriculture Act of 1962, and was authorized under subtitle H, title XV of the Agriculture and Food Act of 1981. The Resource Conservation and Development Program (RC&D) was reauthorized in the Farm Security and Rural Investment Act of 2008.

The purpose of the RC&D program is to accelerate the conservation, development and utilization of natural resources, improve the general level of economic activity, and to enhance the environment and standard of living in designated RC&D areas. It improves the capability of state, tribal and local units of government and local nonprofit organizations in rural areas to plan, develop and carry out programs for resource conservation and development. The program also establishes or improves coordination systems in rural areas. Current program objectives focus on improvement of quality of life achieved through natural resources conservation and community development which leads to sustainable communities, prudent land use, and the sound management and conservation of natural resources.

Plant Materials Centers

NRCS Plant Materials Centers (PMC) and Plant Materials Specialists provide training to other Federal employees, state and county government employees, partners, and sometimes the public. The training consists of technical topics such as plant establishment, invasive species control and establishment of windbreaks. Training sessions may last from one hour to several days. The overall goal of the training is to increase the knowledge and expertise of NRCS staff and other conservation partners who work directly with landowners to implement conservation practices.

Research and Development

NRCS Plant Materials Centers (PMCs) are research farms engaging in (1) applied research and (2) development, as defined in SFFAS No 8. PMCs select plants to be used in resource conservation efforts. Assemblies of plants are evaluated for specific attributes. Plant selection may involve several cycles of crossing and evaluation. Replicated plantings and the use of statistical analysis may be involved in the evaluations. The end product is a new conservation plant released to commercial growers for large-scale production and sale to the customers for resource conservation projects.

PMCs evaluate, adapt, and develop technology for the use and management of conservation plants to protect or restore natural resources. Plantings may be replicated in controlled studies. Data may be collected and statistically analyzed. Results of these studies improve the efficiency or success of conservation plantings. End products include technical documents (core products), technical presentations, and training provided to end-users.

Research and Development Investment	2006	2007	2008	2009	2010	Total Investment
Plant Technology Development & Transfer	$3,151,109	$2,930,630	$3,200,285	$3,812,444	$3,314,453	$16,408,921
Plant Evaluation and Release	1,012,208	850,527	921,517	1,056,657	942,900	4,783,809
Soils	1,944,277	1,229,160	1,253,971	1,756,895	2,006,734	8,191,037
Total Invested Each Year	**$6,107,594**	**$5,010,317**	**$5,375,773**	**$6,625,996**	**$6,264,087**	**$29,383,767**

Table 38: NRCS Investments in Research and Development

Required Supplementary Information

Deferred Maintenance

Deferred maintenance is maintenance not performed when it should have been or was scheduled to be and is put off or delayed for a future period. The NRCS is responsible for assessing the level and cost of deferred maintenance of its owned facilities. NRCS maintains an inventory of owned facilities and structures in the Corporate Property Automated Information System (CPAIS). NRCS has 27 Plant Materials Centers (PMCs) that date back as far as 1935. Of the 27 centers, 24 have NRCS owned facilities. These centers are located in 26 states and have service areas covering all 50 states and territories.

PMCs are research farms consisting of an office building, greenhouse, laboratories/work space, and warehouses. Other features of PMCs typically include electrical and domestic water distribution, irrigation water wells, pumps or distribution systems, paved or gravel surfaces, and fuel storage and pumps. These make up the major class of assets.

NRCS is currently not able to report on the value of deferred maintenance or the condition of the assets.

Following is the information regarding the Statement of Budgetary Resources by major budget account:

Statement of Budgetary Resources by Major Budget Account as of September 30, 2010 (in millions)						
Budgetary Resources:	**Conservation Operations**	**Watershed**	**Farm Bill**	**Resource Conservation & Development**	**Other**	**Total**
Unobligated balance, brought forward, October 1:	$83	$626	$1,043	$3	$13	$1,768
Recoveries of prior year unpaid obligations	35	55	294	0	0	384
Budget authority:						
Appropriations	889	70	0	51	0	1,010
Spending authority from offsetting collections:						
Earned:						
Collected	42	9	62	0	0	113
Change in receivables from Federal sources	2	1	(2)	0	0	1
Advance received	(3)	0	0	0	0	(3)
Without advance from Federal sources	11	15	20	0	0	46
Subtotal	**941**	**95**	**80**	**51**	**0**	**1,167**
Nonexpenditure transfers, net	0	0	2,939	0	0	2,939
Total Budgetary Resources	**$1,059**	**$776**	**$4,356**	**$54**	**$13**	**$6,258**
Status of Budgetary Resources:						
Obligations Incurred:						
Direct	$903	$510	$2,950	$51	$0	$4,414
Reimbursable	46	38	72	0	0	156
Subtotal	**949**	**548**	**3,022**	**51**	**0**	**4,570**
Unobligated balance-apportioned	75	227	78	3	20	403
Unobligated balance not available	36	0	1,246	1	2	1,285
Total status of budgetary resources	**1,060**	**775**	**4,346**	**55**	**22**	**6,258**
Change in Obligated Balances:						
Obligated balance, net						
Unpaid obligations, brought forward, October 1	$212	$399	$2,702	$7	$1	3,321
Uncollected customer payments from Federal sources, brought forward October 1	(23)	(63)	(11)	0	0	(97)
Total unpaid obligated balance, net	**189**	**336**	**2,691**	**7**	**1**	**3,224**
Obligations incurred net	949	548	3,022	51	0	4,570
Gross outlays	(865)	(342)	(2,008)	(50)	0	(3,265)
Recoveries of prior year unpaid obligations	(35)	(55)	(294)	0	0	(384)
Change in uncollected customer payments from Federal sources	(13)	(16)	(18)	0	0	(47)
Obligated balance, net, end of period						
Unpaid obligations	261	552	3,421	7	1	4,242
Uncollected customer payments from Federal sources	(36)	(79)	(29)	0	0	(144)
Total, unpaid obligated balance, net, end of period	**$225**	**$473**	**$3,392**	**$7**	**$1**	**$4,098**
Net Outlays:						
Gross outlays:	$865	$342	$2,008	$50	$0	$3,265
Offsetting collections	(39)	(9)	(62)	0	0	(110)
Net Outlays	**$826**	**$333**	**$1,946**	**$50**	**$0**	**$3,155**

Table 39: Statement of Budgetary Resources by Major Budget Account for the year ended September 30, 2010

Unaudited – See accompanying auditors' report