United States Department of Agriculture
Office of Inspector General

Natural Resources Conservation Service's Financial Statements for Fiscal Year 2015

Audit Report 10401-0005-11
November 2015

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

DATE: November 10, 2015

AUDIT NUMBER: 10401-0005-11

TO: Jason Weller
Chief
Natural Resources Conservation Service

ATTN: Jeffrey Machelski
Acting Chief Financial Officer

Leon Brooks
Director of Compliance

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Natural Resources Conservation Service's Financial Statements for Fiscal Year 2015

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, 2015. The report contains a disclaimer of opinion on the financial statements, as well as an assessment of NRCS' internal controls over financial reporting and compliance with laws and regulations.

KPMG LLP, an independent certified public accounting firm, conducted the audit. In connection with the contract, we reviewed KPMG LLP's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit, in accordance with *Government Auditing Standards* (issued by the Comptroller General of the United States), was not intended to enable us to express, and we do not express, an opinion on NRCS' financial statements; internal control; whether NRCS' financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996 (FFMIA); or conclusions on compliance with laws and regulations. KPMG LLP is responsible for the attached auditor's report, dated November 6, 2015, 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 15-02, *Audit Requirements for Federal Financial Statements*, except as disclosed below.

KPMG LLP reported that NRCS was unable to provide adequate 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, 2015, particularly with respect to obligations incurred, including accrued expenses and undelivered orders; recoveries of prior year unpaid obligations; and unexpended appropriations and net position balances for the Grassland Reserve Program and accrued expense transactions. Because of the significance of this matter, KPMG LLP was not able to obtain sufficient appropriate audit evidence to enable the auditors to express an opinion on the accompanying financial statements as of and for the year ended September 30, 2015.

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

- accounting and controls over obligations and undelivered orders;
- controls over financial operations; and
- accounting and controls over transactions related to the Grassland Reserve Program.

KPMG LLP considered these three deficiencies to be material weaknesses. The results of KPMG LLP's tests of compliance with laws and regulations disclosed instances of noncompliance with FFMIA and the Improper Payments Elimination and Recovery Improvement Act.

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

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

United States Department of Agriculture
Natural Resources Conservation Service
Independent Auditors' Report
As Of and For the Year Ended September 30, 2015

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

Independent Auditors' Report

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

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the Natural Resources Conservation Service (NRCS), which comprise the balance sheet as of September 30, 2015, and the related statements of net cost, changes in net position, and combined statement of budgetary resources for the year then ended, and the related notes to the financial statements (herein referred to as "financial statements").

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting an audit 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 Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

NRCS was unable to provide adequate 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, 2015, particularly with respect to obligations incurred, including accrued expenses and undelivered orders; recoveries of prior year unpaid obligations and unexpended appropriations, and net position balances and related accrued expense transactions for Grassland Reserve Program. Additionally, NRCS did not present comparative financial statements, required by OMB Circular No. A-136, *Financial Reporting Requirements*, as amended. As a result we were unable to complete certain tests of transactions and balances that we considered necessary to complete the audit of the financial statements.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph. We do not express an opinion or provide any assurance on the information.

Other Information

Our engagement was conducted for the purpose of forming an opinion on the financial statements as a whole. The Message from the Chief on page 1, the Message from the Chief Financial Officer on page 37, and the Other Information section on pages 68-80, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in our engagement, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements, we considered the NRCS' internal control over financial reporting (internal control) to determine the procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NRCS' internal control. Accordingly, we do not express an opinion on the effectiveness of the NRCS' internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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

Additional deficiencies in internal control over financial reporting, potentially including additional material weaknesses and significant deficiencies, may have been identified and reported had we been able to perform all procedures necessary to express an opinion on the NRCS financial statements.

Compliance and Other Matters

In connection with our engagement to audit the financial statements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 15-02. The identified non-compliance with the Improper Payments Elimination and Recovery Improvement Act of 2010 (IPERIA) is discussed further in Exhibit II.

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

Additional instances of noncompliance with certain provisions of laws, regulations, contracts, and grant agreements, or instances where the NRCS' financial management systems did not substantially comply with FFMIA requirements, may have been identified and reported herein had we been able to perform all procedures necessary to express an opinion on the NRCS financial statements.

NRCS' Response to Findings

The NRCS' response to the findings identified in our engagement is described in Exhibit V. The NRCS' response was not subjected to the auditing procedures applied in this engagement and, accordingly, we express no opinion on the response.

Purpose of the Other Reporting Required by Government Auditing Standards

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

KPMG LLP

Washington, DC
November 6, 2015

INTRODUCTION TO EXHIBITS

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

During the fiscal year 2015 engagement, KPMG LLP (KPMG) observed a decrease in the number of significant deficiencies in the NRCS' control environment when compared to the prior year. In addition, supporting documentation has improved which resulted in a decrease in the magnitude of errors identified in the financial statements when compared to the prior year.

Exhibit I presents the material weaknesses, as of and for the year ended September 30, 2015. Exhibit II of this report presents our results of tests of compliance with laws and regulations and other matters as of and for the year ended September 30, 2015. Exhibit III summarizes the current year status of our prior year recommendations. Exhibit IV summarizes the current year status of our prior year recommendations for noncompliance with laws and regulations and other matters. The NRCS management's response is presented in Exhibit V.

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

During our fiscal year (FY) 2015 testing of undelivered orders (UDOs), and upward and downward adjustments to prior year unpaid obligations, we noted that:

- Obligations were not liquidated timely;
- Upward and downward adjustments to prior year unpaid obligations were incorrect based on the nature of the accounting correction;
- Balances were not adequately supported; and
- Obligations expired prior to September 30, 2015 and the corresponding funds were not deobligated.

When testing the UDO balance as of September 30, 2015, we identified 7 exceptions out of a sample of 68 items. These UDO exceptions resulted from inadequately supported documentation, invalid obligations, and a lack of adjustments for work delivered. When testing FY 2015 upward and downward adjustments to prior year unpaid obligations, we identified 131 exceptions in out of a sample of 378 items. These upward and downward adjustment exceptions resulted from inadequate documentation and incorrect use of the accounts based on the nature of the transaction. These internal control and documentation weaknesses increase the risk of an Anti-Deficiency Act violation.

The above noted exceptions occurred because of a lack of:

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

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (Standards) states that, "internal controls and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained." Additionally, with regard to accountability for records and resources, "Periodic comparison of resources with the recorded accountability should be made to help reduce the risk of errors, fraud, misuse, or unauthorized alteration."

Recommendation 1:

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

- Monitor activity in U.S. Standard General Ledger (USSGL) 4871 and 4881 to ensure that invalid upward and downward adjustments are identified and corrected in a timely manner and that balances are appropriate;
- Monitor open obligations (USSGL accounts 4801 and 4802) to ensure that they are recorded in the appropriate period and liquidated timely; and
- Provide adequate training to personnel related to the documentation requirements for support.

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

Transactional Support and Data Extract Preparation Needs Continued Improvement

During our engagement to audit the FY 2015 financial statements, we noted that a lack of adequate supporting documentation led to some misstatements in the financial statements.

The projected error related to downward adjustments to undelivered orders, and accrued expenses which are significant to the financial statements.

In addition, some data extracts, used for sampling, were incomplete or inaccurate, which resulted in the NRCS having less time to provide adequate supporting documentation for transactions.

The above noted exceptions occurred because of a lack of adherence to existing United States Department of Agriculture (USDA) Departmental policy, *Management Accountability and Control,* for maintaining adequate supporting documentation over the life cycle of an accounting transaction.

Recommendation 2:

We recommend management of the NRCS establish policies and procedures that:

A. Assist personnel producing data extracts to determine the completeness and accuracy of such extracts;
B. Ensure data extracts are reviewed by process owners regularly for errors; and
C. Establish a closing schedule for period 13 transactions in order to avoid any delays in producing such extracts.

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

- Establish policies/guidelines that assist accounting personnel in properly determining the type of sufficient supporting documentation; and
- Continue to develop and implement internal controls and policies and procedures to correct or mitigate the risks and potential misstatements within the agency.

Improved Accounting and Controls are Needed Over Expenses

During our FY 2015 testing of expenses and related year-end expense accruals, we noted that for certain transactions:

- Supporting documentation was not provided; and
- Expenses were recorded in the incorrect fiscal year (i.e., period-end accrual policy was not followed).

When testing FY 2015 expense transactions, we identified 58 exceptions out of a sample of 555 items. We noted that the exceptions related to transactions that were inadequately support as well as recorded in the incorrect fiscal year. When testing the accrued expense balance as of September 30, 2015, we noted 12 exceptions out of a sample of 77 items resulting from unsupported accrual amounts and duplicate transactions recorded.

The above noted exceptions occurred because personnel of the NRCS:

- Responsible for procurement/agreement/credit card disbursements did not follow the USDA formal policy which requires appropriate documentation and approvals to support disbursements prior to recording the transaction in the general ledger, and
- Did not adhere to existing USDA Departmental policy *Management Accountability and Control* for maintaining adequate supporting documentation over the life cycle of an accounting transaction.

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."

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (Standards) states that, "internal controls and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained." Additionally, with regard to accountability for records and resources, "Periodic comparison of resources with the recorded accountability should be made to help reduce the risk of errors, fraud, misuse, or unauthorized alteration."

Recommendation 3:

We recommend that management of the NRCS:

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

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

- Provide guidance and/or training to employees on policies and procedures to ensure purchase transactions have adequate supporting documentation (e.g., purchase requisitions, purchase orders, invoices, etc.) to determine if they are accurate and exist;
- Enhance monitoring controls over payment approvals to determine whether appropriate documentation is provided to support the disbursement; and
- Enhance procedures to determine if accrued expenses are complete, accurate, and exist at quarter end and are properly supported.

Number 3: Improved Accounting and Controls are Needed Over Transactions related to the Grassland Reserve Program

During our FY 2015 testing of advances, we determined that the NRCS was unable to provide supporting documentation for transactions relating to the Grasslands Reserve Program (GRP). As part of the GRP, the NRCS receives funding authority from the Commodity Credit Corporation (CCC) and then advances this funding to the Farm Service Agency (FSA) so that FSA personnel can deliver administrative services for the GRP on behalf of NRCS. The delivery of these services spans FY 2003 through FY 2015. During this period, the NRCS recognized an advance (i.e., a receivable) on the balance sheet for the funds advanced to FSA. As the FSA performed the services, the NRCS liquidated the advance and recognized an expenditure. NRCS has been unable to provide supporting documentation for these transactions.

In September of FY 2015, the NRCS requested the remaining GRP advance funds from FSA. Once the GRP funds were returned to NRCS, NRCS liquidated the advance and reclassified the funds from a paid (i.e., with advance) to an unpaid (without advance) obligation in the general ledger. NRCS was unable to provide sufficient documentation to support this obligation without advance. The effect of the GRP-related obligation was an overstatement of $141M in the general ledger.

The above noted exceptions occurred because of a lack of adherence to existing United States Department of Agriculture (USDA) Departmental policy, *Management Accountability and Control,* for maintaining adequate supporting documentation over the life cycle of an accounting transaction.

OMB Circular A-123, *Management's Responsibility for Internal Control* states that "management has a fundamental responsibility to develop and maintain effective internal control." Additionally, "documentation for transactions, management controls, and other significant events must be clear and readily available for examination."

Recommendation 4:

We recommend that management of the NRCS:

A. Implement managements plan to develop a new process for administering the remaining funds for the GRP in FY 2016;
B. Request and obtain supporting documentation for prior services rendered by FSA to NRCS;
C. Review and reconcile the supporting documentation to determine and mutually agree upon the amount of services that have been rendered by FSA to NRCS;
D. Make and record any necessary corresponding adjustments to fund balance with Treasury, accounts receivables, accounts payable, and cumulative results of operations balances; and
E. Obtain sufficient supporting documentation for the remaining GRP obligations recorded in the general ledger at the end of FY 2015.

COMPLIANCE WITH LAWS AND REGULATIONS

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

We determined that obligations incurred, including accrued expenses and undelivered orders; recoveries of prior year unpaid obligations and unexpended appropriations and net position balances for Grassland Reserve Program transactions and activity as it relates to accrued expenses were not properly recorded in accordance with Federal accounting standards, including the USSGL at the transaction level. These issues were addressed through our recommendations in Exhibit I.

Number 5: NRCS Did Not Substantially Comply with the Improper Payments Elimination and Recovery Improvement Act (Repeat Condition)

Certain entity participants incorrectly self-certified their registration in the System for Award Management (SAM), when in fact they were not registered. Specifically, for FY 2014 transactions, which were tested in FY 2015, it was noted that NRCS reported a total of $467M or 22% of outlays as improper payments. This issue is further discussed in Other Information section of the Fiscal Year 2015 Agency Financial Report.

Recommendation 5:

As noted in recommendation of Audit Report No. 10401-0004-11, November 2014, we continue to recognize the need for management of the NRCS to review existing policies and procedures to ensure that they are adequate to address the requirements of IPERIA and provide guidance and/or training to employees and outside entities regarding the SAM.gov registration requirements.

Exhibit III

STATUS OF PRIOR YEAR MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES

Open Conditions in this Table are Referenced in Exhibit I		
Number 1: Improved Accounting and Controls are Needed Over Obligations and Undelivered Orders *(Repeat Condition: 2014 Material Weakness)*	1. We recommend that management of the NRCS: A. Develop comprehensive policies and procedures to monitor the GRP program and confirm transactions are accurate, adequately supported and recorded in the proper fiscal year.	Closed/ Re-issued
Number 2: Improved Controls are Needed Over Financial Operations *(Repeat Condition: 2014 Material Weakness)*	2. We recommend that management of the NRCS: A. We recommend that management of the NRCS review and evaluate options to reference accruals to the appropriate undelivered orders so that these amounts can be incorporated in the balances.	Closed

Open Conditions in this Table are Referenced in Exhibit I		
Number 1: Improved Accounting and Controls are Needed Over Obligations and Undelivered Orders *(Repeat Condition: 2014 and 2013 Material Weakness)*	1. We recommend that management of the NRCS:	
	A. Continue to monitor activity in U.S. Standard General Ledger (USSGL) accounts 4801, 4871 and 4881 to ensure that invalid upward and downward adjustments are identified and negated in a timely manner and that balances are appropriate;	Open
	B. Continue to monitor open obligations to ensure that upward and downward adjustments are recorded in the appropriate period and liquidated timely; and	Open
	C. Provide adequate training to personnel related to the documentation requirements for support.	Open
Number 2: Improved Controls are Needed Over Financial Operations *(Repeat Condition: 2014 and 2013 Material Weakness)*	2. We recommend that management of the NRCS:	
	A. Identify and document transactions that, when required, are recorded in accordance with the guidance found in SFFAS No. 21: *Reporting Correction of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources*;	Open
	B. Implement procedures to reduce the need to record a large volume of misstatements at year end;	Closed
	C. Establish policies/guidelines that assist accounting personnel in properly determining the type of sufficient supporting documentation for journal entries and deferred maintenance; and	Closed
	D. Enhance the management review of journal entries to include use of appropriate posting models and obtaining and inspecting supporting documentation.	Closed

Material Weakness/ Significant Deficiency	Recommendation	Status
Number 3: Improved Accounting and Controls are Needed Over Expenses *(Repeat Condition: 2014 and 2013 Material Weakness)*	3. We recommend that management of the NRCS:	
	A. Provide guidance and/or training to employees on policies and procedures to ensure purchase transactions have adequate supporting documentation (e.g., purchase requisitions, purchase orders, invoices, etc.) to determine if they are accurate and exist;	Open
	B. Enhance monitoring controls over payment approvals to determine whether appropriate documentation is provided to support the disbursement; and	Open
	C. Enhance procedures to determine if accrued expenses are complete, accurate, and exist at quarter ends and are properly supported.	Open
Number 4: Improved Accounting and Controls are Needed Over Revenue and Accounts Receivable *(Downgraded: 2014 Significant Deficiency and 2013 Material Weakness)*	4. We recommend that management of the NRCS:	
	A. Continue to improve documentation that will support revenue, accounts receivable, and unfilled customer orders transitions in accordance with OMB Circular No. A-123; and	Closed
	B. Review and liquidate invalid unfilled customer orders.	Closed

Exhibit IV

STATUS OF PRIOR YEAR NON-COMPLIANCE FINDINGS

USDA OIG Audit Report No. 10401-0004-11 December 2014	
Reported Condition in FY 2014	**Status in FY 2015**
NRCS Does Not Substantially Comply with Federal Financial Management Improvement Act of 1996	Open/ Comment Repeated in FY 2015
NRCS Does Not Substantially Comply with the Improper Payments Elimination and Recovery Improvement Act	Open/ Comment Repeated in FY 2015

USDA OIG Audit Report No. 10401-0003-11 November 2013	
NRCS Does Not Substantially Comply with Federal Financial Management Improvement Act of 1996	Open/ Comment Repeated in FY 2014

November 6, 2015

Mr. Brian Grega
KPMG, LLP
1801 K Street, N.W., Suite 1200
Washington, D.C. 20006 File Code: 250

Dear Mr. Grega:

We have reviewed the KPMG Independent Auditor's Report of the Natural Resources Conservation Service's (NRCS) Fiscal Year (FY) 2015 Financial Statements, and generally agree with its contents. In FY 2015, NRCS continued to focus on audit remediation efforts while launching two additional National Service Delivery Teams – Accounts Payable and Travel Services. The elimination of the significant deficiency related to Revenue and Unfilled Customer Orders provides evidence our efforts are working and we are moving closer to an audit opinion.

NRCS has made progress in correcting previously reported problems. Key accomplishments in FY 2015 included:

Obligations and Financial Operations:

- Improved our review and documentation of our intradepartmental agreements;
- Conducted a review and reconciliation of the Grassland Reserve Program Advances and Obligations;
- Continued to refine and improve our review and negation of erroneous upward and downward adjustments; and
- Deployed subject matter expert teams to all KPMG site visits to further identify all issues contributing to financial statement audit findings and develop corrective actions.

In FY 2016 we will continue to build on our successes through our audit remediation efforts, with the ultimate goal of achieving an audit opinion. We will also continue to implement administrative transformation, creating a sustainable administrative support structure for the agency.

Sincerely,

/s/
Jeffrey Machelski
Acting Chief Financial Officer

cc:
USDA Office of Inspector General

Natural Resources Conservation Service
Post Office Box 2890, Washington, D.C. 20013

Natural Resources Conservation Service

Fiscal Year 2015

Agency Financial Report

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Message from the Chief
Financial Report for Fiscal Year 2015

On behalf of the Natural Resources Conservation Service (NRCS), I respectfully submit the Agency Financial Report for Fiscal Year 2015 (FY15). This year NRCS continued its administrative transformation by establishing our accounts payable, travel, and local support services teams. Our administrative transformation is key to our remediation efforts towards achieving a clean audit opinion.

In accordance with Departmental guidelines, and as required by the Federal Financial Managers Integrity Act (FMFIA) and the Office of Management and Budget's Circular A-123, *Management's Responsibility for Internal Control*, NRCS acknowledges our responsibility for the internal control environment. We have evaluated our internal controls and financial systems. As a result of this review, I can provide qualified assurance on the agency's system of controls.

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

Our conservation programs are helping producers prepare for challenges ahead. From systems that help improve the health of the soil and water to restoring wetlands and wildlife populations, we are helping to ensure the health of our natural resources and the long-term sustainability of American agriculture.

We saw huge wins for species conservation in FY15, benefitting both wildlife, and the farmers and ranchers we serve. In September, thanks to the hard work of our staff, partners, and landowners, the U.S. Fish & Wildlife Service determined that both the greater sage grouse and the New England cottontail did not need protections under the Endangered Species Act, in part because of the incredible habitat restoration work that continues to take place on private lands. The collaborative model NRCS fostered through its Sage Grouse Initiative marks a paradigm shift in the species protection, proving that voluntary, landowner-driven conservation can address, conserve, and restore habitat while strengthening agricultural operations.

Through voluntary conservation efforts, we're also improving air quality across the country. In California's San Joaquin Valley, for example, we are helping farmers significantly reduce combustion emissions from tractors and other equipment, improving the valley's air quality. For the first time these voluntary emission reductions are being officially recognized by the Environmental Protection Agency, and State and local air regulatory agencies, and is precedent-setting for other voluntary emission reduction efforts the agency will be leading in the coming years. In just the past few years, NRCS efforts in the San Joaquin Valley have reduced emissions of oxides of nitrogen (NOx), a key component of ozone, by nearly 7 tons per day – equivalent to the NOx emissions reductions from taking nearly 800,000 conventional vehicles off the road.

Our work with the Regional Conservation Partnership Program (RCPP), a new program authorized under the Agricultural Act of 2014, is one example of our commitment to partner-led conservation. This program provides funding to address natural resource issues on agricultural land, with the funding process beginning with proposals submitted from non-Federal partners. RCPP empowers local communities and private landowners to take control and identify the resource conservation needs in their own backyards, and helps us target investments where they are needed the most. In FY15, the U.S. Department of Agriculture (USDA) delivered more than $370 million to 115 high-impact conservation projects across all 50 States and the Commonwealth of Puerto Rico. Together, USDA investments and partner contributions have brought our total conservation investment through RCPP to almost $800 million – and we're just getting started. The selection process for the second round of RCPP is currently underway.

Helping farmers and ranchers improve the health of their soils has been the foundation of our agency's work since the Soil Conservation Service was chartered 80 years ago. This year we joined the international community in celebrating the International Year of the Soils to bring attention to the importance of soil health on a global scale. Since 2012, NRCS has invested $481 million in soil health practices. We are helping farmers and ranchers save money and improve the efficiency of their operations, while at the same time building their resiliency to droughts and flooding, and improving the quality of water leaving the field. This year we established a new Soil Health Division dedicated exclusively to providing science-based, regionally adapted soil health training, assessment, management planning, and implementation.

We are also broadening our efforts to support the development of emerging environmental markets for carbon, water quality, wetlands, and biodiversity – markets that can become an economic driver for conservation, while at the same time generating new sources of income for our rural communities. Through our Conservation Innovation Grant program, we are investing in cutting-edge projects that increase habitat for pollinators, developing new ways to attract private investment in natural resource conservation, giving agricultural producers greater access to greenhouse gas markets, and helping farmers and ranchers make their operations more resilient to climate change.

Finally, we have reaffirmed our commitment to our core competency at NRCS: sound conservation planning. Planning focuses on the natural systems and ecological processes that sustain our natural resources. A conservation planner has to balance natural resource issues with economic and social needs. It is equal parts art and science. We've increased our technical training this year so our staff can continue to support producers and conserve our natural resources for the future. Through a new focused partnership effort with four of our core conservation partners we have launched an initiative to focus on developing the tools, training, communication, and accountability to better support conservation planning.

Our nation's farmers, ranchers, and forest landowners understand that clean water, clean air, and healthy soil are the raw materials for agricultural production. From generations of experience, they know that you cannot continually take from the land without giving back, and they have made incredible strides to protect the land and water we all depend on. They will face enormous pressure to increase production in the future in the face of a changing climate and dwindling resources. NRCS will continue to help producers in these efforts, using proven conservation practices and the latest science and research to help secure positive outcomes for agriculture, for local communities, and for the environment.

Jason A. Weller
Chief
Natural Resources Conservation Service

SECTION 1: MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) serves as a high level overview for the year ended September 30, 2015 of the financial and non-financial performance for the Natural Resources Conservation Service (NRCS), an agency of the United States Department of Agriculture (USDA).

NRCS has chosen to produce an Agency Financial Report (AFR) and an Annual Performance Report (APR). NRCS will include its FY 2015 APR with its Congressional Budget Justification and it will be posted with the FY 2017 President's Budget in 2016, with data also available in the AFR and APR, and posted on the USDA public website.

Mission and Organizational Structure

Mission Statement

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

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

Major Program and Business Lines

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

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

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

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

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

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

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

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

   Business lines 1 through 5 are supported by our three major discretionary programs: Conservation Operations, Watershed and Flood Prevention, and Watershed Rehabilitation Programs. Business line 6 is supported by the Farm Bill Program (see Note 1A of the financial statements for a discussion of major programs).

Organizational Structure

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

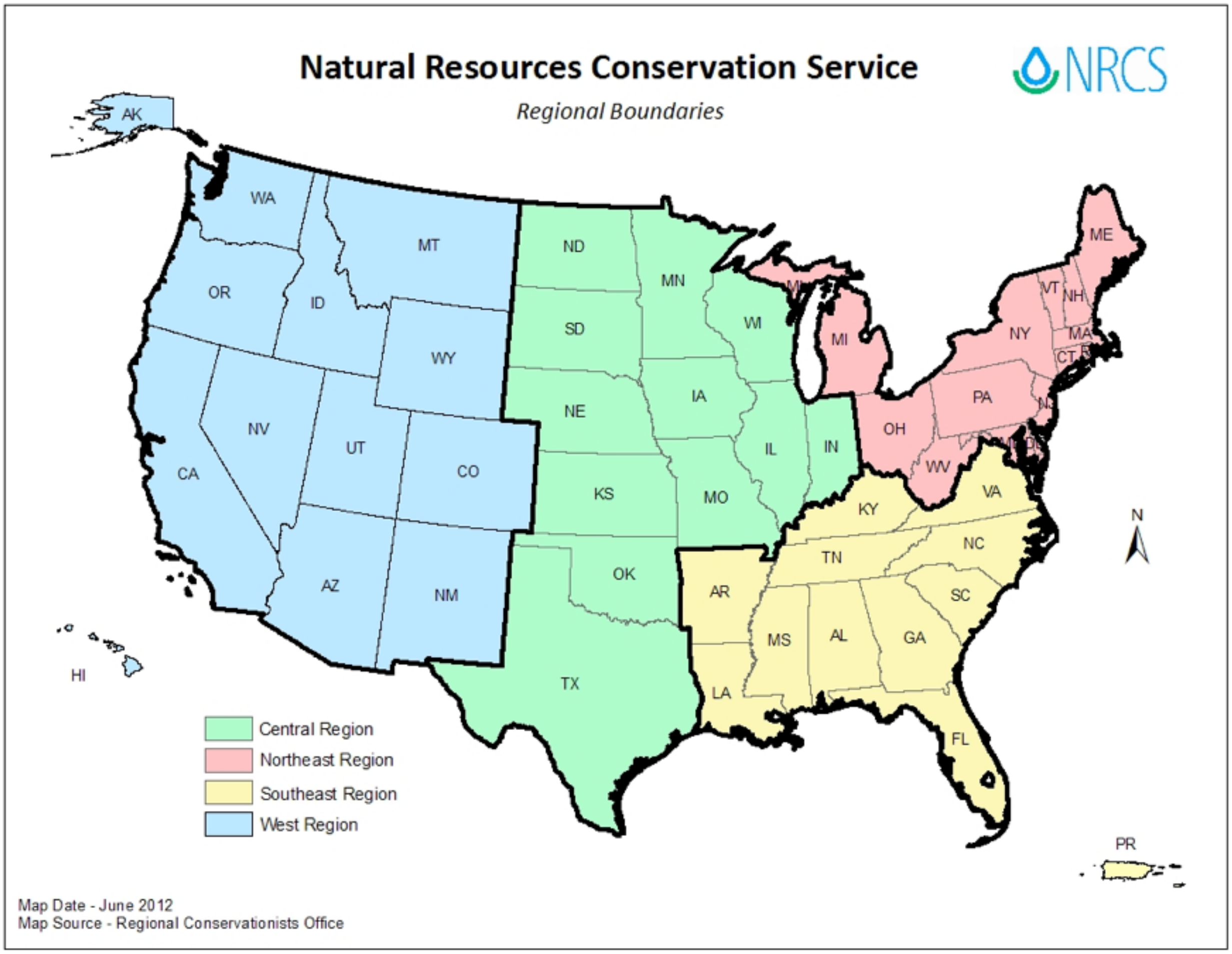

Table 1: NRCS Organizational Map of Regions

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

Natural Resources Conservation Service

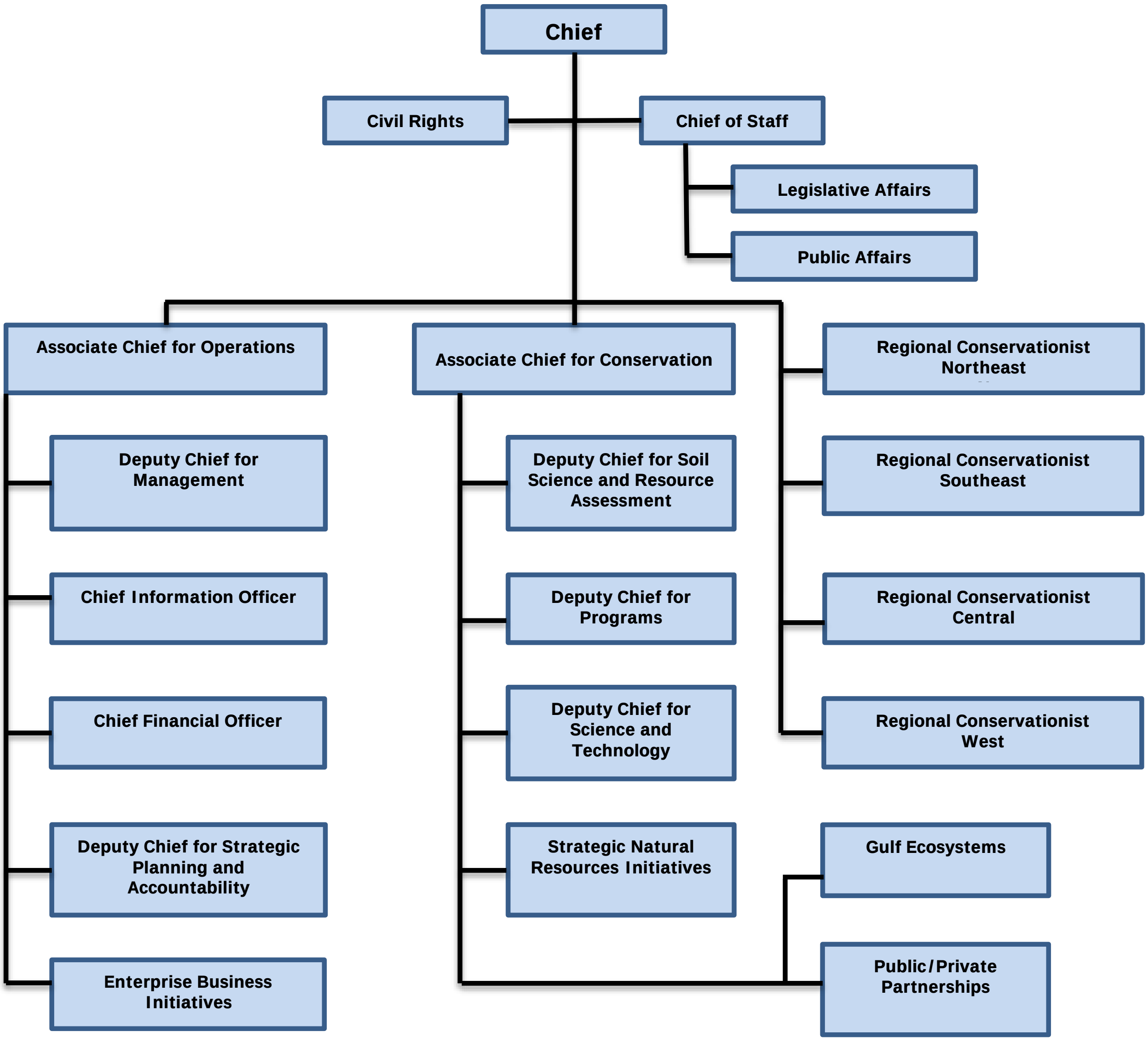

Table 2: NRCS Organizational Chart as of September 30, 2015

Strategic Planning and Accountability Framework

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

All functionality in the Strategic Planning and Accountability Framework is undergoing significant investment to provide continued improvement in accountability, performance, and efficiency. Maximizing Agency success requires adaptive management strategies to include systematically and accurately assessing and improving work processes. Key features of adaptive management require a feedback system to improve conservation solutions and monitor success in order to achieve efficient investments in conservation. The feedback system NRCS uses includes performance measures and program evaluation methods and connecting scientific evidence to conservation outcomes. The key components of the strategy for measuring and evaluating programs include:

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

Performance Goals, Objectives, and Results

Mission Goal: Get More Conservation on the Ground

NRCS's core mission is delivered through one fundamental strategic goal: Get More Conservation on the Ground. This one mission goal encompasses all Agency investments and impacts, as reflected in the Statement of Net Cost. The NRCS strategic goal directly supports USDA Strategic Goal 2: Ensure Our National Forests and Private Working Lands are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing our Water Resources. The strategic plan identifies three long term Strategic Performance Measures, which are tracked annually using Key Performance Measures (KPM). The KPMs are tracked separately by program for a total of seven annual targets. KPMs provide a direct indication of progress in achieving the Strategic Plan measures identified for the NRCS Strategic Goal and are used in the Budget and Annual Performance Plan and reported in the MD&A. The long term Strategic Performance Measures and the annual KPMs are shown below and are excerpted from the NRCS 2011-2015 Strategic Plan Implementation & Appendices.

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

Table 3: Key Performance Measures

Performance Goals and Results

The following performance scorecard displays NRCS's key performance measure accomplishments as related to the NRCS Strategic Plan Mission Goal: Get More Conservation on the Ground. The KPMs in the second column are the USDA measures from the USDA Strategic Goal 2: Ensure Our National Forests and Private Working Lands are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing our Water Resources.

USDA Objective	Key Performance Measure	Trend[1]				As of September 30, 2015		
		FY 2011	FY 2012	FY 2013	FY 2014	Target	Actual	Result[2]
2.1 Restore and Conserve the Nation's Forests, Farms, Ranches, and Grasslands	2.1.2 Cropland with conservation applied to improve soil quality, Conservation Technical Assistance (CTA) – (millions of acres)	8.2	8.7	8.4	6.2	6.8	6.0	Unmet
	2.1.3 Cropland with conservation applied to improve soil quality, Environmental Quality Incentive Program – (EQIP), (millions of acres)	4.6	4.6	4.2	3.1	3.4	3.0	Unmet
	2.1.4 Grazing and forest land with conservation applied to protect and improve the resource base (CTA), (millions of acres)	17.1	17.1	16.6	13.1	12.8	13.1	Met
	2.1.5 Grazing and forest land with conservation practices applied to protect and improve the resource base (EQIP), (millions of acres)	16.3	17.2	17.9	14.8	13.7	13.9	Met
	2.1.8 Non-Federal land with conservation applied to improve fish and wildlife habitat quality (EQIP), (millions of acres)	4.8	6.2	2.0	1.4	1.4	1.4	Met
2.2 Protect and Enhance America's Water Resources	2.2.1 Land with conservation applied to improve water quality (CTA), (millions of acres)	24.0	23.8	22.4	18.2	17.2	18.0	Met
	2.2.2 Land with conservation applied to improve water quality (EQIP), (millions of acres)	14.5	13.6	13.0	12.3	12.0	12.7	Met

1. **The sources of data for all performance measures are the National Planning and Assessment Database and the Performance Results System.**
2. **Rationale for Met Range: Estimated performance October 2014 through September 30, 2015. Data assessment metrics to meet the target allow for an actual number in the range of 90% - 110% of the target.**

Table 4: Performance Scorecard for FY 2015 – Trends, Targets, and Results

Performance Data Verification and Validation

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

- **Completeness of Data –** The reported performance measures are based on data reported through September 30, 2015. Numerous data quality mechanisms within PRS ensure the completeness of each performance record entry. Each performance record must adhere to a set of quality assurance requirements during the upload process. Business rules, definitions, and internal controls enforce accountability policies or business requirements and diagnose potential entry errors. Error reports are generated for managers at multiple levels to review for completeness or rejected entries, including the Strategic Planning and Accountability Deputy Area staff. On an annual basis the State Conservationists certify that the data is complete.

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

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

- **Linking Performance to Programs –** To ensure program accountability and evaluate program efficiency, data on performance measures for conservation applied must be linked to the program that funded the staff time needed to carry out each activity. Where more than one program is used to apply practices on the same land unit, each program is credited under the performance measure.

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

Analysis of Entity's Financial Statement and Stewardship Information

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

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

NRCS strives to provide relevant, reliable, and accurate financial information related to agency activities. The following tables reflect the comparative amounts as of September 30, 2015 and September 30, 2014.

Assets

NRCS reported $8.8 billion in assets as of September 30, 2015, representing an increase of eight percent compared with assets reported as of September 30, 2014.

Assets (in millions)	FY 2015	FY 2014	Difference	Difference (Percentage)
Fund Balance with Treasury	$8,695	$7,851	$844	11%
Accounts Receivable	26	38	(12)	(32)%
Advances to Others	0	170	(170)	(100)%
Total Intragovernmental	**$8,721**	**$8,059**	**$662**	**8%**
Accounts Receivable, Net	5	6	(1)	(17)%
General Property, Plant and Equipment, Net	56	48	8	17%
Advances to Others	31	26	5	19%
Total Assets	$8,813	$8,139	$674	8%

Table 5: Assets

Fund Balance with Treasury (FBwT) is an asset account that represents the amount in the Agency's accounts with Treasury that is available only for the purposes for which the funds were appropriated, as discussed in Statements of Federal Financial Accounting Concepts (SFFAC) 2, Paragraph 84. According to 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, clearing accounts, funds transferred from the Commodity Credit Corporation (CCC) using borrowing authority, and a trust fund.

General Property, Plant, and Equipment, net (PP&E) consists of NRCS owned land and land rights, buildings, other structures and facilities, equipment, capital leases, and internal use software. General PP&E includes the book value of one heritage asset, the Tucson Plant Materials Center in Tucson, Arizona, which is classified as a multi-use asset used in government operations. PP&E balances increased 17 percent, primarily due to additional deployments of internal use software and additional purchases of vehicles and equipment.

The decrease in intragovernmental advances to others is related to liquidations made on Grassland Reserve Program (GRP) advances to the Farm Service Agency (FSA), along with the refund of $140 million in outstanding advances existing as of September 30, 2015 to NRCS from FSA related to GRP. The refund also increased the FBwT balance as of September 30, 2015.

Liabilities

NRCS reported $1.2 billion in liabilities as of September 30, 2015, representing a decrease of approximately one percent from FY 2014. The major liability amounts are provided in the table below.

Liabilities (in millions)	FY 2015	FY 2014	Difference	Difference (Percentage)
Intragovernmental Other Liabilities	46	15	31	207%
Accounts Payable	17	30	(13)	(43)%
Federal Employee and Veterans' Benefits	39	40	(1)	(3)%
Other	1,116	1,145	(29)	(3)%
Total Liabilities	**$1,218**	**$1,230**	**$(12)**	**(1)%**

Table 6: Liabilities

The decrease in Accounts Payable is caused by a decrease in the Disbursements in Transit balance as of September 30, 2015 compared to FY 2014.

Net Position

NRCS reported a net position of $7.6 billion as of September 30, 2015, representing an increase of ten percent over the same period in FY 2014. Net position represents unexpended appropriations consisting of undelivered orders as well as unobligated funds, and the cumulative results of operations.

Net Position (in millions)	FY 2015	FY 2014	Difference	Difference (Percentage)
Unexpended Appropriations	$758	$674	$84	12%
Cumulative Results of Operations	6,837	6,235	602	10%
Total Net Position	**$7,595**	**$6,909**	**$686**	**10%**

Table 7: Net Position

The increase in unexpended appropriations of 12 percent from FY 2014 is largely related to an increase in carryover funds in Conservation Operations, as well as increased appropriations received, combined with a decrease in expended appropriations related to Watershed and Flood Prevention Operations.

Net Cost of Operations

NRCS's net cost of operations was $3.8 billion as of September 30, 2015, representing a decrease of six percent over the past twelve months.

Net Cost of Operations (in millions)	FY 2015	FY 2014	Difference	Difference (Percentage)
Gross Costs	$3,827	$4,073	$(246)	(6)%
Less: Total Earned Revenue	55	74	(19)	(26)%
Total Net Cost of Operations	**$3,772**	**$3,999**	**$(227)**	**(6)%**

Table 8: Net Cost of Operations

Earned revenues declined 26 percent over the past twelve months primarily due to a reduction in billed expenses related to the Conservation Reserve Program (CRP), which was reclassified from reimbursable to direct funding beginning in FY 2014. As remaining obligations on the prior year CRP agreements are disbursed and billed, NRCS expects to see additional decreases in revenue related to CRP. Additionally, NRCS completed the clean-up and billing of outstanding expenses which were carried forward from a prior financial system.

Budgetary Resources

Total budgetary resources were $8.2 billion as of September 30, 2015, representing an increase of six percent from September 30, 2014.

Budgetary Resources (in millions)	FY 2015	FY 2014	Difference	Difference (Percentage)
Budgetary Resources	$8,243	$7,804	$439	6%

Table 9: Budgetary Resources

The six percent increase in budgetary resources is largely related to an increase in allotments made in FY 2015 for the Farm Bill Programs, specifically the Agricultural Conservation Easement Program, the Conservation Stewardship Program, and Conservation Technical Assistance programs. Congress provides extended disbursement authority on certain Farm Bill Treasury symbols, which allows the agency to retain funds and continue disbursing for valid obligations made during the period the funds were made available for obligation. However, the extended disbursing authority does not provide NRCS the authority to enter into new obligations in FY 2015 using the unobligated balances existing from expired years.

Analysis of Entity's Systems, Controls, and Legal Compliance

The Federal Managers' Financial Integrity Act (FMFIA) requires ongoing evaluation of internal controls and financial management systems. These evaluations lead to an annual statement of assurance that:

- Obligations and costs comply with applicable laws and regulations;
- Federal assets are safeguarded against fraud, waste, abuse and mismanagement;
- Transactions are accounted for and properly recorded; and
- Financial management systems conform to standards, principles and other requirements to ensure that Federal managers have timely, relevant and consistent financial information for decision-making purposes.

NRCS annually evaluates its internal controls over financial reporting in accordance with Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, Appendix A, *Internal Control over Financial Reporting*.

Additionally, NRCS was audited by an independent auditing firm. The results of ongoing internal evaluations and its financial statement audit results are detailed below.

FY 2015 Financial Statement Audit Report Results

In FY 2015, KPMG LLP, an independent auditing firm, was engaged to audit the financial statements of NRCS. The auditors issued a Disclaimer of Opinion on the basis that NRCS did not provide adequate evidential matter in support of certain transactions and account balances. Three material weaknesses were identified:

- Improved Accounting and Controls are Needed over Obligations and Delivered Orders;
- Improved Accounting and Controls are Needed over Financial Operations; and
- Improved Accounting and Controls are Needed over Transactions Related to the Grassland Reserve Program.

The first two material weaknesses are repeat conditions from last year's audit. Improved Accounting and Controls are Needed over Expenses and Accrued Expenses, a repeat material weakness from last year's audit, was consolidated into Improved Accounting and Controls are Needed over Financial Operations. Improved Controls are Needed over Revenue, Accounts Receivable, and Unfilled Customer Orders, a significant deficiency noted in last year's audit, was downgraded to a management comment.

Two findings related to compliance with laws and regulations were identified:

- Compliance with the Federal Financial Management Improvement Act of 1996 with regard to applicable federal accounting standards and the United States Standard General Ledger (USSGL) at the transaction level; and
- Compliance with the Improper Payments and Elimination and Recovery Improvement Act (IPERIA) of 2012.

Management Assurances

USDA

United States Department of Agriculture

NATURAL RESOURCES CONSERVATION SERVICE
ANNUAL CERTIFICATION STATEMENT

TO:	Jon M. Holladay Chief Financial Officer
THROUGH:	Robert Bonnie Under Secretary, NRE
FROM:	Jason A. Weller Chief
	Jeffrey Machelski Acting Chief Financial Officer
SUBJECT:	Federal Managers' Financial Integrity Act (FMFIA); Federal Financial Management Improvement Act (FFMIA); Office of Management and Budget Circular No. A-123, "Management's Responsibility for Internal Control," Appendix A, "Internal Control over Financial Reporting", and Disaster Relief Appropriations Act (DRAA) Certification Statement

NOV - 6 2015

NOV - 6 2015

This memorandum provides the Natural Resources Conservation Service's (NRCS) assertions to support the Secretary's annual assurances for the *United States Department of Agriculture (USDA) Fiscal Year (FY) 2015 Agency Financial Report*. The assertions include the assurances statements for compliance with laws and regulations, FMFIA, OMB Circular No. A-123, "Management's Responsibility for Internal Control, Appendix A, "Internal Control over Financial Reporting," and the Department's certification for the FFMIA and DRAA.

FMFIA Assertions

1. Management is responsible for developing and maintaining internal control to ensure the effectiveness of operations, reliability of financial reporting, compliance with applicable laws and regulations, and the safeguarding of assets.
2. Internal control encompasses accounting and administrative controls. Such controls include program, operational and administrative areas, as well as accounting and financial management.
3. Management has conducted its annual evaluations of internal control and financial systems pursuant to Section 2 and Section 4 of FMFIA, respectively, for the period ended September 30, 2015.

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4. Based on the results of the evaluations, NRCS provides qualified assurance that internal controls are operating effectively.
5. Three material weaknesses were identified during fiscal year (FY) 2015 in the Office of Inspector General audit report 10401-0005-11. The three material weaknesses are: Improved Accounting and Controls are needed over Obligations and Undelivered Orders, Improved Accounting and Controls are needed over Financial Operations, and Improved Accounting and Controls are needed over transactions related to the Grassland Reserve Program. The findings related to Obligations and Financial Operations are repeat conditions. Accounting and Controls over Revenue, Accounts Receivable, and Unfilled Customer Orders, a prior year significant deficiency, was downgraded to a management comment.
6. Corrective action plans have been submitted in the Officer of the Chief Financial Officer (OCFO) A-123 Document Tracking System. They are identified on the attached Summary of Reportable Deficiencies chart.
7. NRCS asserts the following for the DRAA:
   a. NRCS has established appropriate policies and controls, and corrective actions have been taken to mitigate the risk of fraud and inappropriate spending practices regarding activities and expenses related to Hurricane Sandy and other disaster-related activities for the Emergency Watershed Protection Program, including the Flood Plain Easement component of that program.
   b. Management has not identified additional significant risk associated with management or payment of Disaster Relief Act funds.
8. NRCS asserts the following for Improved Data Quality Reporting for USAspending.gov:
   a. NRCS has implemented processes to ensure data completeness and accuracy on USAspending.gov by using control totals with financial statement data. Although NRCS has implemented the necessary processes to ensure accurate USAspending.gov reporting, the actual process of reporting requires additional improvement.
   b. Mitigation efforts to become compliant are described in the Summary of Reportable Deficiencies chart.
9. NRCS asserts the following for the Government Charge Card Abuse Act:
   a. NRCS has established appropriate policies and controls and corrective actions have been taken to mitigate the risk of fraud and inappropriate charge card practices.
   b. Management has identified a risk associated with internal controls for travel cards (i.e. centrally billed accounts, individually billed accounts, and declining balance cards). The risk and associated mitigation efforts are described in the Summary of Reportable Deficiencies chart.

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Internal Control over Financial Reporting Assertions

1. NRCS assessed the effectiveness of internal control over financial reporting as of June 30, 2015. The assessment followed USDA guidance and is required by the Office of Management and Budget Circular A-123, Appendix A.
2. The assessment included an evaluation of risk assessments, process descriptions and flowcharts, documentation of key controls, an assessment of the design of key controls, tests of operating effectiveness of properly designed controls, summary of deficiencies, and the development of corrective action plans for control deficiencies.
   a. Key controls in the following processes were not tested but were assessed:
      - Budgetary Authority
      - Transfers
      - Fund Balance with Treasury Reconciliations
      - Time and Attendance
      - Payroll Processing
        Personnel and Payroll Master File Maintenance
   b. Key controls in the following processes were tested:
      - Authorization/Modification – Reimbursable Agreements
      - Receivable and Payable Management – Reimbursable Agreements
      - Closeout-Reimbursable Agreements
      - Intergovernmental Payment And Collection (IPAC) Reconciliations
      - Significant Management Estimates
      - Period End Reporting
      - Unliquidated Obligation Review
      - User Access (Protracts, WebTCAS, Empower, and FMMI)
      - Awards – Easements
      - Rights Transfer – Easements
      - Monitoring- Easements
      - Restoration – Easements
      - Closeout-Easements
      - Authorization/Modification- Grants Management (ProTracts)
      - Draws and Expenditures – Grants Management (ProTracts)
      - Monitoring – Grants Management (ProTracts)
      - Closeout – Grants Management (ProTracts)
      - Authorization/Modification- Grants Management (Non -ProTracts)
      - Draws and Expenditures – Grants Management (Non-ProTracts)
      - Monitoring – Grants Management (Non-ProTracts)
      - Closeout – Grants Management (Non-ProTracts)
      - Conference Planning and Reporting
      - Charge Card (Travel Card) Monitoring
3. Management recognizes its responsibility for monitoring and correcting all control deficiencies.

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4. Management further certifies that there have been no changes in the operation of controls tested from the sample selection date through June 30, 2015.
5. Based on the results of the assessment, NRCS can provide qualified assurance that internal controls over financial reporting are operating effectively.
6. Three significant deficiencies, validation, monitoring, and certification of Unliquidated Obligations were identified. The material weakness related to the validation of Unliquidated Obligations was downgraded from a material weakness. All of the prior year significant deficiencies were downgraded to control deficiencies, closed, or consolidated with other control deficiencies.
7. Corrective action plans have been developed and submitted in the OCFO A-123 Document Tracking System. They are identified on the attached Summary of Reportable Deficiencies chart.

FFMIA Assertions

1. NRCS management evaluated its financial management systems under FFMIA for the period ended September 30, 2015. NRCS is placing partial reliance on the assertions of USDA Associate CFO for Financial Systems.
2. Based on the results of our evaluation, NRCS is not in substantial compliance with FFMIA as it relates to Federal accounting standards and the United States Standard General Ledger (USSGL) at the Transaction Level. Findings include non-compliance issues related to beginning net position balances and current year activity; obligations incurred, including accrued expenses and undelivered orders, and recoveries of prior year unpaid obligations.
3. Corrective actions are identified on the attached Summary of Reportable Deficiencies chart. The beginning balance for Section 2: Applicable Federal Accounting Standards was corrected from 2 to 1.

Non-compliance with Laws and Regulations

1. In FY 2015, NRCS identified two findings related to compliance with laws and regulations:
   a. Non-compliance with FFMIA of 1996 with regard to Applicable Federal Accounting Standards at the transaction level.
   b. Non-compliance with the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2013.

2. Corrective actions are identified on the attached Summary of Reportable Deficiencies chart.

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Management Control Reviews

NRCS has conducted management control reviews during FY 2015. Reviews have been conducted in the areas of financial management, easements, program administration, and policy compliance.

1. Financial Management Reviews
   a. Significant and material financial statement line items were reviewed for accuracy and internal control compliance. Line items reviewed included obligations, advances, accruals, unfilled customer orders, disbursements, revenue, upward and downward adjustments.
   b. Corrective actions are described in the attached Summary of Reportable Deficiencies chart.
2. Policy Compliance Reviews
   a. State site visits have been conducted to review policy compliance in the following areas: Financial Assistance Programs, Easements, Soils and Resource Assessment, Agronomy and Ecological Science, Engineering, Grants and Agreements, Human Resources, and Information Technology.
   b. The results of the policy compliance reviews are still under review.
3. Program Administration Reviews Program Administration Reviews
   a. Six states have been reviewed to ensure compliance with various programmatic policies and procedures. Areas reviewed included resource concerns, payment documentation, contract modifications, service delivery, quality assurance efforts, eligibility and conservation planning.
   b. Operation Reviews – Three States' operation processes have been reviewed. Areas reviewed included oversight of easement and financial assistance programs, proper management of risk, and quality assurance policies and process.
   c. Corrective Action Plan (CAP) Review – The effectiveness of States' CAPs has been reviewed in five States. Reviews determined if CAPs have been implemented, assessed the level of awareness and responsibility at each operational level, and ensured that CAPs has been integrated into State operations.
   d. Corrective actions are described in the attached Summary of Reportable Deficiencies chart.
4. Easement Reviews
   a. Ten States have been reviewed. Supporting documentation has been reviewed for completeness of easement transactions. Areas reviewed included delegations of authority, landowner eligibility, signatures, easement compensation computations, and funds availability certification.
   b. Corrective actions are described in the attached Summary of Reportable Deficiencies chart.

Attachments

Fiscal Year 2015
Natural Resources Conservation Service
Summary of Reportable Deficiencies

Federal Managers' Financial Integrity Act

Categories	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Federal Managers' Financial Integrity Act Section 2						
Material Weakness	3					3
Significant Deficiency	1		(1)			0
Control Deficiency (Elevates to Department MW)						
Federal Managers' Financial Integrity Act Section 4						
System Non-compliance	0					0

Identifier	Short Title	Weakness Category (MW, SD, CD)	Year Identified	Original Estimated Completion Date	Actual Completion Date	Revised Estimated Completion Date
Section 2						
OIG Audit Rec. #1	Obligations/Undelivered Orders	MW	2008	9/15/2010		9/30/2016
OIG Audit Rec. #2	Financial Operations	MW	2008	2/28/2012		9/30/2016
OIG Audit Rec. #3	Grassland Reserve Program	MW	2015	9/30/2016		9/30/2016
	Revenue, Accounts Receivable and Unfilled Customer Orders	Management Comment (downgraded from a SD)	2008	9/15/2010		9/30/2015

Internal Control over Financial Reporting

This section provides the results of NRCS's OMB A-123 review on internal controls over the assessed business processes. The amounts at risk were analyzed on a control-by-control basis and the failed controls were categorized as control deficiencies, significant deficiencies or material weaknesses. NRCS has only disclosed the significant deficiencies and material weaknesses noted during our current review and the status those disclosed from the prior year.

Categories	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Internal Control over Financial Reporting Section 2						
Material Weakness	1				(1)	0
Significant Deficiency	9	3	(8)		(1)	3
Control Deficiency (Elevates to Department MW)	0					0
Internal Control over Financial Reporting Section 4						
Material Weakness						
Significant Deficiency						
Control Deficiency (Elevates to Department MW)	0	6				6

Identifier	Short Title	Weakness Category (MW, SD, CD)	Year Identified	Original Estimated Completion Date	Actual Completion Date	Revised Estimated Completion Date
Section 2						
Financial Reporting						
CAP# 2013.10.09.002	Unliquidated Obligations – Validation of ROOT Review	SD (downgraded from a MW)	2013	9/30/2014		9/30/2016
CAP# 2015.10.28.001	Unliquidated Obligations- CFO Certification	SD	2015			9/30/2016
CAP# 2015.10.28.002	Unliquidated Obligations - Deobligations	SD	2015			9/30/2016
Grants Management						
CAP# 2014.10.33a.001	Monitoring Grants	SD	2014		8/10/2015	
CAP# 2012.10.07.003	Grants Management – Pre- Awards	SD	2012		8/10/2015	
CAP# 2012.10.07.013	Close out –Non Protracts	CD (downgraded from a SD)	2011			9/30/2015
CAP 2012.10.07.018	Disbursement within FMMI	SD	2012		8/10/2015	
CAP 2012.10.07.016	Disbursement within FMMI	SD	2012		8/10/2015	
CAP 2012.10.07.017	Disbursement within FMMI	SD	2012		8/10/2015	
CAP	Disbursement within	SD	2012		8/10/2015	

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2012.10.07.019	FMMI					
CAP 2012.10.07.020	Disbursement within FMMI	SD	2012		8/10/2015	
CAP 2012.10.07.025	Period End Accruals	SD	2011		8/10/2015	
Section 4						
Personnel Security						
POA&M #21984	Protracts/Funds Manager – Employee Transfer	CD	2015			3/31/2017
POA&M #21983	Protracts/Funds Manager- Employee Termination	CD	2015			3/31/2017
POA&M #21985	WebTCAS - Employee Termination	CD	2015			3/31/2017
POA&M #21986	WebTCAS – Employee Transfer	CD	2015			3/31/2017
Configuration Management						
POA&M #21963	Protracts/Funds Manager – Security Impact Analysis	CD	2015			3/31/2017
POA&M #21987	WebTCAS - Security Impact Analysis	CD	2015			3/31/2017

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Federal Financial Management Improvement Act

Federal Financial Management Improvement Act						
Categories	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Section 1: Federal Financial Management System Requirements	0					0
Section 2: Applicable Federal Accounting Standards	1					1
Section 3: Standard General Ledger at the Transaction Level	1					1
Section 4: Information Security, Policies, Procedures and Practices	0					0

Identifier	Short Title	Year Identified	Original Estimated Completion Date	Actual Completion Date	Revised Estimated Completion Date
Section 1: Federal Financial Management Systems Requirements					
Section 2: Applicable Federal Accounting Standards					
OIG Audit # 10401-0005-11	Non-Compliance with Federal Accounting Standards	2008	2/28/2012		9/30/2016
Section 3: Standard General Ledger at the Transaction Level					
OIG Audit # 10401-0005-11	Non-Compliance with USSGL	2008	2/28/2012		9/30/2016
Section 4: Information Security, Policies, Procedures and Practices					

Non-compliance with Laws and Regulations

Identifier Law/Regulation	Description of Violation	Year Identified	Original Estimated Completion Date	Actual Completion Date	Revised Estimated Completion Date
OIG Audit # 10401-0005-11	Non-Compliance with the Federal Financial Management Improvement Act of 1996	2008	2/28/2012		9/30/2016
OIG Audit # 10401-0005-11	Non-Compliance with the Improper Payments Elimination and Recovery Improvement Act	2013	7/31/2015		7/31/2016

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USAspending.gov Reporting

Description of Violation	Year Identified	Original Estimated Completion Date	Actual Completion Date	Revised Estimated Completion Date
Non-Compliance with USAspending.gov Reporting	2014	9/30/2015		9/30/2016

Government Charge Card Abuse Act

Identifier	Description of Violation	Year Identified	Original Estimated Completion Date	Actual Completion Date	Revised Estimated Completion Date
CAP# 2015.10.50.001 (CD)	Delinquent Travel Card Accounts Not Monitored	2015	12/31/2015		

NRCS Management Review Findings

Description of Finding	Year Identified	Original Estimated Completion Date	Actual Completion Date	Revised Estimated Completion Date
Financial Management Reviews				
Grant and Agreements Payments Are Under-accrued	2015	12/31/2016		
Invalid Prior Year Accruals Are Recorded in the General Ledger		12/31/2016		
Upward and downward adjustments not Properly Supported or Valid	2015	12/31/2016		
Advances Not Monitored or Liquidated Timely	2015	12/31/2016		
Single Audit Act Compliance Needs Improvement	2015	12/31/2015		
Unliquidated Obligations and Deobligations are not Adequately Monitored		12/31/2016		
Protracts/FMMI Interface Needs Improvement	2015	12/31/2016		
Unprocessed IPAC Process Needs Improvement	2015	12/31/2015		
Goods and Services Received Related to Interagency Agreements (INTR/IPAC payments) are not Adequately Validated Post-Payment	2015	12/31/2015		
Utility Expenses Are Not Adequately Monitored	2015	12/31/2015		
Close-out Process for Procurement Contracts and Grants and Agreements Needs Improvement	2015	12/31/2016		
Entity Participants are Not Registered In Sam.gov Prior to Payment	2015	12/31/2015		
GSA Motor Pool Transactions are Not Properly Supported	2015	12/31/2015		
Recurring Reclassifications/Negations Are Not Formally Reviewed and Approved By Management	2015	12/31/2015		
Easement Reviews				
National Easement Staging Tool Data Entry Errors	2015	12/31/2015		
Easements Not Monitored	2015	12/31/2015		
Easement Deeds Not in Case Files	2015	12/31/2015		
Easements Not Recorded	2015	12/31/2015		
Landowner Eligibility Not Verified	2015	12/31/2015		

Funds Availability not Certified before Obligation	2015	12/31/2015		
Agreement Expiration Issues	2015	12/31/2015		
Insufficient Delegation of Authority	2015	12/31/2015		
Insufficient Supporting Payment Documentation	2015	12/31/2015		
Program Reviews				
Insufficient Practice Certification and Payment Documentation	2015	10/1/2018		
Insufficient Environmental Evaluation Documentation	2015	10/1/2016		
Insufficient Cast File Supporting Documentation	2015	10/1/2016		
Personally Identifiable Information (PII) is Maintained in Case Files	2015	10/1/2016		
National Operations Management Policy Requires Additional Clarification	2015	10/1/2015		
Quality Assurance Process Needs Improvement Regarding Ensuring that Corrective Actions Have Been Implemented	2015	10/1/2016		
Corrective Action Plan Process Not Fully Integrated into State Operations	2015	10/1/2016		

Federal Managers' Financial Integrity Act (FMFIA) of 1982

NRCS management is responsible for developing and maintaining effective internal controls to ensure the efficiency and effectiveness of operations, reliability of financial reporting, compliance with applicable laws and regulations, and the safeguarding of assets. Such controls include program, operational, and administrative areas, as well as accounting and financial management.

Management has conducted its annual evaluations of internal control and financial systems, pursuant to Section 2 and Section 4 of FMFIA, respectively, for the year ended September 30, 2015. Based on the results of these evaluations, NRCS management provides qualified assurance that internal controls are operating effectively as of September 30, 2015.

However, management asserts that improvements have been made in cleaning the underlying data supporting various financial statement line items. NRCS has also made significant improvement in identifying and correcting the root causes affecting the reliability of its financial statements.

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

Federal Managers' Financial Integrity Act Action Plans

NRCS management has dedicated resources to remediate all audit findings. Findings under remediation relate to the validity of open obligations and accruals; internal controls over financial reporting; the completeness of reimbursable agreements; and the accuracy and completeness of leased and owned property.

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

Deficiency	Weakness Category (MW/SD)[1]	Audit Year Originally Identified	Audit Years with Open Audit Recommendations	Original Estimated Completion Date of Open Audit Recommendations	Revised Completion Date	Actual Completion Date
Undelivered Orders	MW	2008	2014	6/30/2015	9/30/2016	
Reimbursable Agreements/Unfilled Customer Orders	SD (downgraded from a MW in 2014)	2008	2014	6/30/2015	12/31/2015	
Accrued Expenses	MW	2008	2013 and 2014	9/30/2014	9/30/2016	
Financial Operations	MW	2008	2014	5/31/2015	9/30/2016	
Property Management/PP&E	Management Comment (downgraded from an SD in 2014)	2008	2013	12/31/2014	12/31/2015	
General and Application Access Controls	Management Comment (downgraded from an SD in 2013)	2008	None	9/30/2013		11/30/2014
1. MW = Material Weakness, SD = Significant Deficiency						

Table 10: Federal Managers' Financial Integrity Act Action Plans

Internal Controls over Financial Reporting

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

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

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

FMFIA, Section 4, requires the agency head to provide a separate statement of assurance on the agency's accounting system's conformance with General Accountability Office (GAO) principles and standards.

NRCS relies in part on USDA's Statement of Assurance as it relates to internal controls related to its general ledger system, Financial Management Modernization Initiative (FMMI).

NRCS completed an assessment of the effectiveness of internal controls over operations, financial reporting and management systems for FY 2015. This assessment included an evaluation of entity level controls, risk assessments, process narratives and flowcharts, documentation of key controls, an assessment of the design of key controls, tests of operating effectiveness of properly designed controls, a summary of deficiencies, and the development of corrective action plans for control deficiencies. Key controls in the following business processes were identified and reviewed:

- Budget Authority;
- Budget Transfers;
- Fund Balance with Treasury;
- Reimbursable Agreements – Authorization/Modification, Receivable and Payment Management, and Closeout;
- Intra-Governmental Payment and Collection Reconciliations;
- Significant Management Estimates;
- Period End Reporting;
- Unliquidated Obligation Review;
- User Access to FMMI, EmpowHR, ProTracts, and WebTCAS systems;
- Time and Attendance;
- Payroll Processing;
- Personnel and Payroll Master File Maintenance;
- Easements – Awards;
- Easements – Title Transfer, Monitoring, Restoration, and Closeout;
- Grants and Agreements (ProTracts and non-ProTracts) – Draws and Expenditures, Monitoring, Authorization/Modifications, and Closeout;
- Travel Card Monitoring; and
- Conference Management – Pre-Planning, Planning and Approval, Cost Tracking and Reporting, and Accounting and Financial Management.

Based on the results of the assessment, NRCS provides a qualified statement of assurance that internal controls over financial reporting are operating effectively.

The following table outlines the deficiencies noted to date and the status of the corrective action plans reported to the Department as part of the A-123 process.

Process	Deficiency Area	Weakness Category (MW/SD/CD) [1]	Year Identified	Original Estimated Completion Date	Revised Completion Date	Actual Completion Date
Section 2:						
Financial Reporting	Obligations/Unliquidated Obligations – Validation of the ROOT review	SD (downgraded from MW)	2013	9/30/2014	9/30/2016	
Financial Reporting	Obligations/Unliquidated Obligations – CFO Certification	SD	2015	9/30/2016		
Financial Reporting	Obligations/Unliquidated Obligations – Deobligations	SD	2015	9/30/2016		
Human Resources	Personnel and Payroll Master File Maintenance	CD (downgraded from SD)	2012	11/30/2013	1/31/2016	
Grants Management	Monitoring: Non-ProTracts	SD	2014	05/14/2014		08/10/2015
Grants Management	Closeout/Non-ProTracts	CD (downgraded from SD)	2011	03/31/2014	01/31/2016	
Grants Management	Non-ProTracts Pre-Awards	SD	2012	11/30/2013		08/10/2015
Grants Management	Disbursement within FMMI	SD	2012	06/26/2013		08/10/2015
Grants Management	Period End Accruals	SD	2011	06/26/2013		08/10/2015
Section 4:						
Personnel Security	ProTracts/Funds Manager – Employee Transfer	CD	2015	03/31/2017		
Personnel Security	ProTracts/Funds Manager – Employee Termination	CD	2015	03/31/2017		
Personnel Security	WebTCAS – Employee Termination	CD	2015	03/31/2017		
Personnel Security	WebTCAS – Employee Transfer	CD	2015	03/31/2017		
Configuration Management	Protracts/Funds Manager– Security Impact Analysis	CD	2015	03/31/2017		
Configuration Management	WebTCAS – Security Impact Analysis	CD	2015	03/31/2017		
1. Weakness Categories: MW = Material Weakness, SD = Significant Deficiency, CD = Control Deficiency						

Table 11: Deficiency and Corrective Action Plan Status

In addition to the business processes described above, NRCS conducted several management reviews in FY 2015, as discussed in the Management Assurances letter.

Federal Financial Management Improvement Act (FFMIA) of 1996

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

NRCS is not fully compliant with FFMIA as of September 30, 2015. In an effort to achieve compliance, NRCS completed the following in FY 2015:

- Implemented a more robust analysis of abnormal balances and invalid entries to the financial system in order to ensure that the financial statements are complete and accurate;
- Conducted a review of internal financial reporting guidelines to ensure compliance;
- Enhanced the design of management review of journal entries to include proper use of posting models and inspecting supporting documentation based on transaction type;
- Sampled significant account balances to ensure proper supporting documentation is being maintained; and
- Enhanced the NRCS internal control testing program to review more significant business processes.

The following table outlines the previous deficiencies noted and the status of the corrective action plans for the year ended September 30, 2015.

Identifier	Year Originally Identified	Original Estimated Completion Date	Actual Completion Date
Non Compliance with Federal Accounting Standards	2008	7/31/2009	9/30/2016
Noncompliance with USSGL	2008	7/31/2009	9/30/2016

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

Compliance with Laws and Regulations

For FY 2015, NRCS was not compliant with the Improper Payments Information Act of 2002, as amended by Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012. Agencies are required to meet the law's reduction target and cannot have improper payments that exceed 10%. NRCS did not meet its reduction target in fiscal years 2014 and 2015. Additionally, NRCS's improper payment rate exceeded 10% in FY 2015.

Based on testing performed, NRCS's improper payment rate was 22%. 87% of the improper payments were related to entity participants that self-certified registration in the System for Award Management (SAM) when in fact they were not registered. SAM registration is required to ensure that NRCS does not pay entities barred from doing business with the federal government. These improper payments were not related to fraud. The payments were made to the correct payees for conservation work that was in fact performed. The remaining 13% of improper payments were due to land ownership/control non-compliance issues.

More information regarding improper payments is discussed in the Other Information Section of this report.

Federal Information and Security Management Act (FISMA) of 2002

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

NRCS took a number of actions to improve information security during FY 2015, including:

- Assessing 58 information systems to ensure FISMA requirements have been met;
- Developing or updating security standard operating procedures for all NRCS information systems;
- Developing or updating security standard operating procedures for the NRCS Information Technology Security Awareness and Training Plan;
- Implementing service level agreements and security agreements for NRCS systems and users;
- Scanning NRCS systems on a routine basis to ensure that they have not been compromised;
- Assisting application teams with vulnerability remediation measures for web applications; and
- Deploying a firewall to protect a publically used NRCS website.

Antideficiency Act

The Antideficiency Act prohibits federal employees from:

- Making or authorizing an expenditure from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available unless authorized by law;
- Involving the government in any obligation to pay money before funds have been appropriated for that purpose, unless otherwise allowed by law;
- Accepting voluntary services for the United States, or employing personal services not authorized by law, except in cases of emergency involving the safety of human life or the protection of property; or
- Making obligations or expenditures in excess of apportionment or reapportionment, or in excess of the amount permitted by Agency regulations.

Federal employees who violate the Antideficiency Act are subject to administrative and penal sanctions. Employees may be subject to appropriate administrative discipline including suspension from duty without pay or removal from office. In addition, employees may be subject to fines, imprisonment, or both. NRCS has not detected violations of the Antideficiency Act in FY 2015.

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. No violations have been noted in FY 2015.

GAO/OIG Active Audits

The summary of GAO/OIG active audits for the year ended September 30, 2015 listed below provides an overview of the current external audit activities in progress within NRCS. After the final report has been provided to the Agency, NRCS may have several audit recommendations to complete before the audit is officially closed.

Active Audit Number/Name	Start Date	Final Report Date
OIG – NRCS's Administration of Easement Programs in Wyoming – 10099-0001-31	3/1/2013	9/27/2013
OIG – 10401-0003-11 – NRCS Financial Statement Audit FY 2013	2/25/2013	12/9/2013
OIG – 10401-0004-11 – NRCS Financial Statement Audit FY 2014	2/12/2014	11/13/2014
OIG – Environmental Quality Incentives Program – 10601-0001-31	12/18/2012	7/24/2014
OIG – NRCS Conservation Easement Compliance – 10601-0002-31	5/28/2013	7/30/2014
OIG – Controls Over Land Valuations for Conservation Easements – 10601-0001-23	9/20/2013	9/28/2015
OIG – NRCS Conservation Stewardship Program – 10601-0001-32	10/25/2013	
OIG – NRCS Wetland Conservation Provisions in the Prairie Pothole Region – 10601-0003-31	8/14/2014	
OIG – Conservation Security Program - 10601-0004 - KC	11/1/2006	6/25/2009
OIG – ARRA - Rehabilitation of Flood Control Dams - 10703-0001- AT	9/1/2010	3/25/2013
OIG - Fiscal Year 2015 Federal Information Security Management Act (FISMA) – 50501–0008–12	3/19/2015	
OIG - Coordination of USDA Farm Program Compliance – FSA, RMA, and NRCS – 50601–0003–22	10/2/2014	
OIG – USDA Monitoring of Highly Erodible Land and Wetland Conservation Violations – 50601-0005-31	3/13/2015	
GAO – Nonpoint Source Water Pollution – 361251 (GAO-12-335)	11/29/2010	7/3/2012
GAO – USDA Payments to the Deceased – 361397 (GAO-13-503)	4/2/2012	6/28/2013
GAO – Coordination of Efforts to Collect Information From Farmers by the USDA's Farm Services Agency, Risk Management Agency, and NRCS – 361647	6/2/2015	
GAO – Federal Disaster Assistance Expenditures – 441286	5/15/2015	
GAO – Environmental Quality Incentives Program (EQIP) – 100307	9/17/2015	

Table 13: GAO/OIG Active Audits Summary

Other Management Information, Initiatives, and Issues

Transformation Initiative

In 2012, USDA Secretary Vilsack launched the Blueprint for Stronger Service, directing USDA agencies to take steps to cut costs and modernize operations. One initiative under the Blueprint is the transformation of USDA's business and administrative operations. NRCS has committed to this initiative by taking proactive steps to improve, innovate, and modernize services.

Standardizing for Efficiency

NRCS collaborated with a contractor to assess our administrative business operations with the goal of creating a new model to shape the vision and future direction of NRCS administrative services. To achieve this goal, we are standardizing how we provide services by establishing a single, consistent set of standards to guide the work and a common set of tools to support the work. These changes will improve the efficiency of our administrative business operations.

Unified National Structure

Under the new model, NRCS will move from maintaining over 50 separate administrative units toward aligning our administrative professionals under a single national structure for each business area with teams that are focused on specific services to assist customers nationwide. Through this structure, our staff will be able to provide standardized, specialized and efficient services to our customers, employees, and partners that are universally consistent and accountable.

Maintain Current Staff Locations

Staff currently working in our Human Resources, Budget and Financial Management, and Procurement, Property and Grants and Agreements areas will be able to work from their current duty locations, be an active part of the business and administrative services team, and serve our internal and external customers. NRCS identified Portland, Oregon, Raleigh, North Carolina, and Washington, DC to serve as the business centers for these functions in the future.

Timely Implementation

NRCS is moving forward quickly and strategically on the administrative transformation. Over the coming months, changes will be phased in with the goal of having the new model in full operation in FY 2016.

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 initiative supports the NRCS mission of getting more conservation on the ground. The CDSI has three objectives:

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

CDSI is organized and staffed in the Office of NRCS's Associate Chief for Operations to ensure an integrated approach rather than a stove pipe Agency wide approach. CDSI staff will implement five major initiatives between now and FY 2021 that will allow field staff to spend as much as 75 percent of their time in the field with clients, minimize duplicate or excessive data entry for staff and clients, reduce administrative workload burden for field partners, provide client web enabled 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.

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

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

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

- Lessons learned and mitigation strategies;
- An improved strategy for a modular development approach that splits Conservation Desktop (CD) into three separate releases;
- Development of the CD and Mobile Planning Tool (MBT) under one contract;
- Revised planning and base lining of the CDSI investment;
- CDSI action plan for mitigating risks;
- Creation of a CDSI Oversight Board, comprised of NRCS leadership;
- Creation of a CDSI Technical Advisory Team, comprised of NRCS employees; and
- A contract with the Gartner Group for continuous consultation and assessment.

The new path forward was approved by NRCS leadership, the USDA Chief Information Officer, and OMB in September 2013. NRCS will complete the design and architecture and develop core services to support CD and MBT in FY 2016. CD's first nationwide incremental release is tentatively planned for calendar year 2016.

The CDSI Conservation Client Gateway was made available to all clients in May 2015. Conservation Client Gateway is the new public-facing web-based application for agricultural producers which will allow NRCS customers to:

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

NRCS will develop and deploy version 2 of Conservation Client Gateway incrementally in calendar year 2016. Enhancements in version 2 include:

- Support for business-entity clients (e.g., limited liability corporations and partnerships);
- A new and improved web interface that supports access from mobile devices;
- A mobile service application which will allow clients to check the status of payments;
- Enhanced electronic signature capability, and
- The ability to perform tasks using power of attorney, including requesting technical and financial assistance, reviewing and signing documents, and accessing plans and contracts within Conservation Client Gateway.

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

SECTION 2: FINANCIAL INFORMATION

Message from the Chief Financial Officer

During Fiscal Year 2015, NRCS continued to make financial management improvements, streamline our processes, and create efficiencies in financial processing. We implemented a robust internal control review process while integrating our audit remediation efforts with both the internal control review and daily operations. We launched our accounts payable and travel service delivery teams, transitioned to a new travel system, and established local support teams in each state office. As we move into the final stages of our administrative transformation, I am optimistic about our future and our ability to achieve an unmodified opinion on our financial statements.

I am pleased to present the FY 2015 financial statements, which the independent public accounting firm of KPMG LLP was engaged to audit, with oversight by the USDA, Office of Inspector General. Our internal reviews and audit results indicate we are on the path to achieving our unmodified audit opinion. Specifically, we have made significant improvements in the area of obligation and advance balances, unfilled customer orders, and the financial reporting capabilities to support our conservation operations.

I look forward to FY 2016 and the implementation of our administrative transformation. We will continue to work closely with our state and local offices while launching the remaining national service delivery teams, streamlining our financial operations in our new operating model, and instituting our financial management improvements.

I would like to express my thanks and appreciation to the dedicated financial management staff across the country for their continued commitment, dedication, and support to our new operating model and our administrative transformation. I look forward to our future and the day we have obtained an unmodified opinion for NRCS.

/s/ Jeffrey S. Machelski
Jeffrey S. Machelski
Acting Chief Financial Officer

Natural Resources Conservation Service

Balance Sheet

As of September 30, 2015
(in millions)

Assets	
Intragovernmental:	
Fund Balance with Treasury (Note 2)	$8,695
Accounts Receivable (Note 3)	26
Total Intragovernmental	$8,721
Accounts Receivable, Net (Note 3)	5
General Property, Plant and Equipment, Net (Notes 4 and 9)	56
Advances to Others (Note 6)	31
Total Assets	**$8,813**
Stewardship PP&E (Notes 5 and 13)	
Liabilities:	
Intragovernmental:	
Other (Notes 7 and 8)	$46
Total Intragovernmental	$46
Accounts Payable	17
Federal Employee and Veterans' Benefits (Note 7)	39
Other: (Note 8)	
Accrued Liabilities for Other Services	992
Unfunded Leave (Note 7)	77
Accrued Payroll and Leave	23
Advances from Others	17
Other	7
Total Other:	1,116
Total Liabilities	**$1,218**
Commitments and Contingencies (Note 10)	
Net Position:	
Unexpended Appropriations	$758
Cumulative Results of Operations	6,837
Total Net Position	**$7,595**
Total Liabilities and Net Position	**$8,813**
The accompanying notes are an integral part of these statements.	

Natural Resources Conservation Service

Statement of Net Cost

For the Year Ended September 30, 2015
(in millions)

Gross Program Costs:	
Get More Conservation on the Ground	
Gross Costs (Notes 11, 12, 13, and 19)	$3,827
Less: Earned Revenue (Notes 11 and 14)	55
Net Program Costs	**$3,772**
Total Gross Costs:	$3,827
Less: Total Earned Revenue	55
Net Cost of Operations	**$3,772**
The accompanying notes are an integral part of these statements.	

Natural Resources Conservation Service

Combined Statement of Changes in Net Position

For the Year Ended September 30, 2015
(in millions)

Cumulative Results of Operations	
Beginning Balance	$6,235
Budgetary Financing Sources:	
Other Adjustments (recissions, etc.)	(278)
Appropriations Used	823
Transfers in/out without reimbursement	3,710
Other Financing Sources (Non-Exchange)	
Imputed Financing	119
Total Financing Sources	4,374
Net Cost of Operations	(3,772)
Net Change	602
Cumulative Results of Operations	6,837
Unexpended Appropriations	
Beginning Balance	$674
Budgetary Financing Sources	
Appropriations Received	941
Other Adjustments	(34)
Appropriations Used	(823)
Total Budgetary Financing Sources	84
Total Unexpended Appropriations	758
Net Position	**$7,595**
The accompanying notes are an integral part of these statements.	

Natural Resources Conservation Service

Combined Statement of Budgetary Resources

For the Year Ended September 30, 2015
(in millions)

Budgetary Resources:	
Unobligated balance, brought forward, October 1	$3,549
Recoveries of prior year unpaid obligations	364
Other changes in unobligated balance	(33)
Unobligated balance from prior year budget authority, net (Note 15)	3,880
Appropriations and Transfers In (discretionary and mandatory)	4,125
Spending authority from offsetting collections (discretionary and mandatory)	238
Total budgetary resources (Notes 17 and 19)	$8,243
Status of Budgetary Resources	
Obligations Incurred (Notes 15, 16, 17, 18, and 19)	$4,093
Unobligated Balance, end of year:	
Apportioned	1,808
Unapportioned	2,342
Total unobligated balance, end of year	$4,150
Total budgetary resources (Notes 17 and 19)	$8,243
Change in obligated balance:	
Unpaid obligations:	
Unpaid obligations, brought forward, October 1	$4,495
Obligations incurred	4,093
Outlays (gross)	(3,722)
Recoveries of prior year unpaid obligations	(364)
Unpaid obligations, end of year (Note 16)	4,502
Uncollected payments:	
Uncollected payments, Federal sources, brought forward, October 1	(193)
Change In uncollected customer payments from Federal sources (discretionary and mandatory)	(13)
Uncollected payments, Federal sources, end of year	(206)
Memorandum (non-add) entries:	
Obligated balance, start of year	$4,302
Obligated balance, end of year	$4,296
Budget Authorities and Outlays, Net (discretionary and mandatory):	
Budget authority, gross	$4,363
Actual offsetting collections	(224)
Change In uncollected customer payments from Federal sources	(13)
Budget authority, net	$4,126
Outlays, gross	$3,722
Actual offsetting collections	(224)
Outlays, net	3,498
Distributed offsetting receipts	(2)
Agency outlays	$3,496
The accompanying notes are an integral part of these statements.	

Notes to the Financial Statements

Note 1 – Significant Accounting Policies

A. Reporting Entity

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

Over 10,000 employees work in approximately 2,605 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 works side by side with employees of 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 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 four regions covering all 50 States, the Caribbean Area (Puerto Rico), the Pacific Basin Area, three National Technology Support Centers, and nine National Centers. The Regions include the Northeast Region, the Southeast Region, the West Region, and the Central Region. The centers provide focus on national initiatives and provide coordination and assistance for conservation work on a functional basis in support of all fifty states and areas. These are in addition to the West and Central Regions. As line officers, State Conservationists report to their respective Regional Conservationist who reports to the Chief.

Discretionary Programs

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

Mandatory Programs

The Agricultural Act of 2014 (2014 Farm Bill) provides authority for NRCS to administer mandatory conservation program activities with no-year funding provided through Commodity Credit Corporation (CCC) borrowing authority. The CCC is a Government owned and operated entity that was created to stabilize, support, and protect farm income and prices. The authorizing language in the 2014 Farm Bill specified that the funds, facilities, and authorities of CCC be used to administer various mandatory conservation programs.

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

B. Basis of Presentation and Accounting

The Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and the Statement of Budgetary Resources (hereinafter referred to as the "financial statements") were prepared to report the assets, liabilities and 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 (GAAP) as promulgated by FASAB, and OMB Circular A-136, *Financial Reporting Requirements* (revised August 4, 2015) with the exception that the statements are not presented comparatively. Per guidance from OMB, NRCS is not subject to the Circular A-136 requirement to prepare comparative financial statements. Under the Government Management Reform Act (GMRA), the Director of OMB has the authority to identify components of Executive Branch departments and agencies that are required to prepare audited financial statements (P.L. 103-356), which includes preparing comparative financial statements. The components of Executive Branch departments and agencies required to prepare audited financial statements are defined in Appendix B of OMB Bulleting No. 15-02, *Audit Requirements for Federal Financial Statements*, as amended. NRCS is not listed in Appendix B of OMB Bulletin No. 15-02 as a required component of the Department of Agriculture.

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

C. Fund Balance with 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, clearing accounts, deposit funds, one trust fund, and one revolving fund that are available to pay liabilities and finance authorized expenditures.

D. Accounts Receivable

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

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

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

F. Advances to Others

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

G. Liabilities

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

H. Workers Compensation Liability

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

I. Employee Annual, Sick, and Other Leave

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

J. Pension and Other Retirement Benefits

NRCS employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). On January 1, 1987, the FERS, a mixed system of defined benefit and defined contribution plans, went into effect pursuant to P.L. 99-335. FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984 could elect to enroll in FERS and Social Security or remain in CSRS. One of the primary differences between FERS and CSRS is that FERS offers automatic and matching contributions into the federal government's Thrift Savings Plan (TSP) for each employee. All employees could invest up to $18,000 and $17,500 in their TSP account in calendar years 2015 and 2014, respectively. Additionally, for FERS employees, NRCS automatically contributes one percent of base pay, and matches employee contributions up to an additional four percent of base pay. For calendar years 2015 and 2014, total contributions made on behalf of an employee could not exceed $53,000 and $52,000, respectively. Since 1987, the FERS program has been modified twice in terms of how much employees are required to contribute to the defined benefit savings plan. Employees hired after December 31, 1983 and on or before December 31, 2012 contribute .8 of base pay for FERS retirement. Pursuant to P.L. 112-96, employees hired (or rehired with less than five years creditable or potentially creditable service under CSRS) on or after January 1, 2013 contribute 3.1 percent of base pay for FERS retirement coverage. Pursuant to the Bipartisan Budget Act of 2013, employees hired (or rehired with less than five years creditable or potentially creditable service under FERS) on or after January 1, 2014 contribute 4.4 percent of base pay for FERS retirement coverage.

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

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

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 and financial assistance payments to landowners. Other funding sources include reimbursable agreements with other Federal agencies, State and local governments, tribal agencies, and the public.

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

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

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

L. Imputed Financing

NRCS recognizes the amount of accrued pension and postretirement benefit expenses for current employees as imputed financing costs. The assets and liabilities associated with such benefits are the responsibility of the administering agency, Office of Personnel Management. Any amounts paid from the Treasury Judgment Fund in settlement of claims or court assessments against NRCS are also recognized as imputed financing. Finally, USDA allocates a portion of its headquarters office space, operations, and maintenance costs to each USDA agency. NRCS recognized imputed financing of $119 million for the year ended September 30, 2015 for the Treasury Judgment Fund, accrued pension and postretirement benefit expense, and the USDA headquarters allocation.

M. Use of Estimates

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

Note 2 – Fund Balance with Treasury

Funds with Treasury are primarily general (appropriated and transferred in), one trust fund, and one revolving fund that are available to pay liabilities and finance authorized purchase commitments. Non-budgetary funds with Treasury consist of proceeds from vehicle sales, intragovernmental payments and collections, and funds on deposit from non-federal entities. There are no reportable differences between Treasury and the agency's general ledger. NRCS has no unused funds in expired appropriations that have not been returned to the U.S. Treasury. See note 17 for a description of extended disbursing authority for Farm Bill funds.

Fund Balance With Treasury (in millions)	2015
Fund Balances:	
General Funds	$8,692
Other Fund Types	2
Trust Fund	1
Total	**$8,695**

Table 14: Fund Balance with Treasury

Status of Fund Balance with Treasury (in millions)	2015
Unobligated Balance:	
Available	$1,808
Unavailable	2,342
Obligated balance not yet disbursed	4,296
Non-budgetary Fund Balance with Treasury	249
Total	**$8,695**

Table 15: Status of Fund Balance with Treasury

Note 3 – Accounts Receivable, Net

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

Accounts Receivables 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. Allowances for doubtful accounts are recorded using aging methodologies based on analysis of historical collections and write-offs.

Accounts Receivable (in millions)	2015
Accounts Receivable, Gross	
Intragovernmental	$26
With the Public	6
Accounts Receivable, Net	
Intragovernmental	$26
With the Public	5
Total	**$31**

Table 16: Accounts Receivable

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

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

General Property, Plant, and Equipment, Net (in millions)	Estimated Useful Life (Years)	Cost	Accumulated Depreciation and Amortization	Net Book Value
Personal Property:				
Equipment	5-20	$76	$57	$19
Internal Use Software	5	51	40	11
Internal Use Software in Development	0	18	0	18
Total Personal Property		**145**	**97**	**48**
Real Property:				
Land and Land Rights		1	0	1
Buildings, Improvements, and Renovations	15-30	14	9	5
Other Structures and Facilities	15-50	4	3	1
Assets under Capital Leases	Varies	3	2	1
Total Real Property		**22**	**14**	**8**
Total		**$167**	**$111**	**$56**

Table 17: General PP&E

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 stewardship land and one historically significant heritage asset.

Stewardship Land

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

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

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

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

For the purpose of reporting, all easements where NRCS is listed as a grantee of the easement are included in the agency's stewardship land count. Also included are easements that are administered by NRCS on behalf of other USDA agencies. As of September 30, 2015, NRCS had 17,318 stewardship land easements. Monitoring and reconciliation of stewardship land easement balances is ongoing.

Heritage Assets

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

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

Stewardship PP&E (in numbers)	Ending Balance 2014 (unaudited)	Beginning Balance 2015 (unaudited)	Additions	Ending Balance 2015
Heritage Assets				
Research Centers	1	1	0	1
Stewardship Land				
Conservation Easements	17,002	17,002	185	17,187
Other Easements	128	128	3	131

Table 18: Stewardship PP&E

Note 6 – Advances to Others

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

Advances to Others (in millions)	2015
With the Public	31
Total	**$31**

Table 19: Advances to Others

Note 7 – Liabilities Not Covered by Budgetary Resources

By law, Federal agencies cannot make outlays unless Congress has authorized and appropriated funds and OMB has provided an apportionment. A portion of the liabilities reported on the Balance Sheet are currently not funded by budgetary resources. Examples include unfunded employee costs for annual leave earned but unused and FECA benefits that are accrued to cover liabilities associated with employee deaths, disabilities, medical issues, and other costs for which funds have not been appropriated. Custodial liabilities represent collections made on behalf of the General Fund of the Treasury for civil monetary penalties and interest or commercial fines and penalties, and are transferred to Treasury at year end. The other liabilities will be paid at the time that a qualifying event occurs and will be expended from appropriations available at that time.

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

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

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

USDA established a cost rate for estimating asbestos treatment costs for all USDA agencies. The rate was computed by totaling actual asbestos treatment costs incurred by USDA agencies and dividing the cost by the total square footage of the areas treated. The current rate is $6.58 per square foot. NRCS estimated its asbestos cleanup liability by applying the cost rate to the total square footage of buildings that were built during the era when asbestos use was prevalent. NRCS recognizes an estimated liability for asbestos treatment in the amount of $1 million for the year ended September 30, 2015.

Liabilities Not Covered by Budgetary Resources (in millions)	2015
Intragovernmental:	
FECA	$8
Total Intragovernmental	**$8**
Unfunded leave	77
Federal employee and veterans' benefits	39
Contingent Liabilities	3
Custodial Liabilities	1
Environmental and disposal liabilities	1
Total liabilities not covered by budgetary resources	$129
Total liabilities covered by budgetary resources	$1,089
Total Liabilities	**$1,218**

Table 20: Liabilities Not Covered by Budgetary Resources

Note 8 – Other Liabilities

Other liabilities encompass both intragovernmental and those with the public. Other liabilities include but are not limited to payables for grants and cooperative agreements, advances and prepayments from others, and accrued liabilities. The liability for deposit funds and clearing accounts reflects the amount that offsets collections awaiting disposition or reclassification.

Other Liabilities (in millions)	Fiscal Year 2015		
	Non-Current	Current	Total
Intragovernmental:			
Accrued Liabilities for Other Services	$0	$26	$26
Employer Contributions and Payroll Taxes	0	7	7
Unfunded FECA Liability	4	4	8
Liabilities for Deposit Funds and Clearing Accounts	0	5	5
Total Intragovernmental	**$4**	**$42**	**$46**
Accrued Liability for Grants and Agreements	0	952	952
Unfunded Leave	0	77	77
Accrued Funded Payroll and Leave	0	23	23
Accrued Liability for Technical and Other Services	0	22	22
Liability for Advances	0	17	17
Accrued Liabilities for Land and Structures	0	14	14
Contingent Liabilities	0	3	3
Liability for Deposit Funds and Clearing Accounts	0	1	1
Environmental and Disposal Liabilities	0	1	1
Liability for Capital Leases	1	0	1
Travel and Transportation Liabilities	0	1	1
Custodial Liabilities	0	1	1
Accrued Liabilities for Miscellaneous Services	0	3	3
Total Other Liabilities	**$5**	**$1,157**	**$1,162**

Table 21: Other Liabilities

Note 9 – Leases

NRCS has entered into leasing agreements with GSA and other parties through leasing authority delegated by GSA for buildings, office space, equipment, and land for 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. NRCS enters into operating leases primarily for office space and some equipment. The lease arrangements generally range from five to ten years. Capital lease assets and future payment information for capital and operating leases are shown in the tables below.

Entity as Lessee: Capital Leases	2015 (in millions)
Summary of Assets Under Capital Lease	
Land and Buildings	$3
Accumulated Amortization	2
Total Assets Under Capital Lease	**$1**

Table 22: Capital Leases Summary

Capital Leases – Future Payments Due:	Land and Buildings (in millions)
Year 1 (2016)	$1
Year 2 (2017)	1
Year 3 (2018)	0
Year 4 (2019)	0
Year 5 (2020)	0
After 5 Years	1
Total Future Lease Payments	**$3**
Less: Imputed Interest	1
Less: Executory Costs	1
Net Capital Lease Liability	**$1**
Lease liability covered by budgetary resources	1

Table 23: Future Payments for Total Capital Leases

Operating Leases – Future Payments Due:	Land and Buildings (in millions)
Year 1 (2016)	$53
Year 2 (2017)	46
Year 3 (2018)	37
Year 4 (2019)	30
Year 5 (2020)	23
After 5 Years	55
Total Future Lease Payments	**$244**

Table 24: Total Future Payments for Operating Leases

Note 10 – Commitments and Contingencies

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

For cases in which payment has been deemed probable and for which the amount of potential liability has been estimated, $3 million has been accrued in the financial statements as of September 30, 2015.

NRCS's potential liability for claims where a judgement against the agency is reasonably possible ranges from $10,000 to $28 million for the year ended September 30, 2015.

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

Note 11 – Intragovernmental Costs and Exchange Revenue

NRCS has one goal to accomplish its mission: Get More Conservation on the Ground. Costs and exchange revenue are disclosed as intragovernmental or with the public, based on the related source or customer, respectively. Intragovernmental expenses relate to the source of goods and services purchased by NRCS, and not to the classification of related revenue.

Intragovernmental Costs and Exchange Revenue (in millions)	2015
Costs	
Intragovernmental	$664
Public	3,163
Total Program Costs	**$3,827**
Earned Revenue	
Intragovernmental	$45
Public	10
Total Program Earned Revenue	**$55**

Table 25: Intragovernmental Costs and Exchange Revenue

Note 12 – Program Costs by Segment

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

Program Costs (in millions)	Gross Costs	Earned Revenue	Net Cost
Conservation Implementation	$2,822	$16	$2,806
Conservation Operations	777	19	758
Natural Resources Inventory	98	4	94
Conservation Planning and Technical Assistance	100	13	87
Natural Resources Assessment	24	2	22
Natural Resources Technology Transfer	6	1	5
Totals	**$3,827**	**$55**	**$3,772**

Table 26: Costs by Program

Note 13 – Cost of Stewardship PP&E

Costs of administering the program for stewardship land amounted to $198 million for the year ending September 30, 2015. These costs consist primarily of easement acquisition costs, the costs associated with the acquisition (closing services, surveys, and due diligence activities) and restoration.

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

Note 14 – Exchange Revenues

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

Note 15 – Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

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

Obligations Incurred (in millions)	Apportionment Category A	Apportionment Category B	Total
Obligations Incurred – Direct	$1	$4,000	$4,001
Obligations Incurred - Reimbursable	0	92	92
Totals	**$1**	**$4,092**	**$4,093**

Table 27: Apportionment Categories of Obligations Incurred

Note 16 – Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders are $3,467 million for the year ended September 30, 2015.

Note 17 – Legal Arrangements Affecting the Use of Unobligated Balances

Under the authority provided in the 2004 and 2008 Farm Bills, NRCS generally received funding for the mandatory conservation programs with one-year authority, which would normally cause the funds to be cancelled five years after the close of the fiscal year for which they were provided. However, many of the obligations entered into with the mandatory conservation program funding do not disburse within the five-year period. Therefore, Congress has provided extended disbursement authority for these funds, which allows the agency to retain the funds and continue disbursing for valid obligations made during the period the funds were available for obligation. The extended disbursing authority does not provide the authority to enter into new obligations in FY 2015 using the unobligated balances from the expired years.

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

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

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

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

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

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

The 2014 Farm Bill changed the period of availability for most of the mandatory conservation programs (except AMA) from one-year to no-year funding. Thus, extended disbursing authority will no longer be needed for these funds in FY 2015 and beyond. In addition, the 2014 Farm Bill repealed five mandatory conservation programs (AWEP, FRPP, GRP, WHIP, and WRP) and restored the authority to obligated expired unobligated balances from FYs 2009 through 2013 for these five repealed programs. These funds are to be used to complete implementation of contracts and easements entered into prior to the repeal of the programs. This resulted in offsetting reappropriation transfers in the amount of $753 million from the one-year treasury symbols to the no-year treasury symbol.

Note 18 – Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

The differences between the unaudited FY 2014 SBR and the FY 2014 actual numbers presented in the FY 2016 Budget of the United States Government are summarized in the table below. The President's Budget with actual numbers for FY 2015 has not yet been published. Upon release of the FY 2017 budget, it will be available at the OMB website. OMB Circular A-136 states that the reconciliation should identify and explain material differences between amounts reported in the SBR and actual amounts reported in the Budget of the United States Government as required by U.S. GAAP.

Budget Reconciliation (in millions)	Budgetary Resources	Obligations Incurred	Net Outlays
Statement of Budgetary Resources (unaudited)	$7,804	$4,255	$3,645
Reconciling Items			
Expired Accounts	(2,229)	(111)	0
Other	(3)	0	1
Budget of the U.S. Government	**$5,572**	**$4,144**	**$3,646**

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

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

This note is intended to bridge 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 in the following table) 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 the 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 sources; (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 appears on the following page.

Natural Resources Conservation Service

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

For the Year Ended September 30, 2015 (in millions)

Reconciliation of the Net Cost of Operations (Proprietary) to Budget	2015
Resources Used to Finance Activities:	
Obligations Incurred	$4,093
Less: Spending authority from offsetting collections and recoveries	602
Obligations net of offsetting collections and recoveries	3,491
Less: Distributed Offsetting Receipts	(2)
Net Obligations	3,489
Imputed financing from costs absorbed by others	119
Net other resources used to finance activities	119
Total resources used to finance activities	**$3,608**
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	$127
Budgetary offsetting collections and receipts that do not affect the net cost of operations	
Change in unfilled customer orders	40
Resources that finance the acquisition of assets	(16)
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	153
Total resources used to finance the net cost of operations	**$3,761**
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 Exchange Revenue Receivable from the Public	(1)
Other	3
Total components of the Net Cost of Operations that will require or generate resources in future periods	2
Components not Requiring or Generating Resources:	
Depreciation and amortization	9
Revaluation of Assets and Liabilities	(1)
Bad Debt Expense	1
Total components of the Net Cost of Operations that will not require or generate resources:	9
Total components of the Net Cost of Operations that will not require or generate resources in the current period	**$11**
Net Cost of Operations	**$3,772**

Table 29: Reconciliation of the Net Cost of Operations (Proprietary) to Budget

SECTION 3: REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

Human Capital

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

National Volunteer Program

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

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

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

The majority of Earth Team volunteers spend their time going conservation implementation, conservation planning and technical consultation, conservation education, and outreach and communication. NRCS utilized over 23,000 volunteers who donated over 291,000 hours of service during FY 2015. Volunteer time is valued at $6.5 million dollars (using an hourly rate of $22.55 as estimated by the Independent Sector, a national volunteer leadership organization).

Resource Conservation and Development

The NRCS also invested in education and training of the public for Resource Conservation and Development as shown in the following table. The program was discontinued in FY 2011 and NRCS conducted an orderly close out of the program.

Resource Conservation and Development (in millions)	2011	2012	2013	2014	2015	Total Investment
Resource Conservation and Development	$22	$0	$0	$0	$0	$22

Table 30: NRCS Investments in Human Capital

Research and Development

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

Plant Materials Centers

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

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

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

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

Research and Development Investment (in millions)	2011	2012	2013	2014	2015	Total Investment
Plant Materials Centers	$12	$10	$9	$9	$11	$51

Table 31: 5 Year Summary of Plant Materials Centers Research and Development Costs

Soil Survey Research

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

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

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

Research and Development Investment (in millions)	2011	2012	2013	2014	2015	Total Investment
Soil Survey Research	$2	$2	$2	$2	$2	$10

Table 32: 5 Year Summary of Soil Survey Research and Development Costs

Soil survey research outputs are primarily technical documents prepared for the scientific community and other customers and are disclosed in SSD and NCSS annual reports. For example, in FY 2015 NRCS funded a published study concerning the development of a tool to predict soil moisture and temperature for use in making better choices about the types of crops to plant, fertilizer selection, and irrigation scheduling in a given area. Soil survey research outputs relate to the NRCS Strategic Plan Goal, "High Quality Productive Soils". Outcomes from these outputs directly and indirectly relate to the efficiency and quality of the soil survey and its use for natural resource conservation activities.

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

Fiscal Year	Technical and Scientific Publications
2011	10
2012	17
2013	13
2014	21
2015	10

Table 33: 5 Year Summary of Technical and Scientific Publications

SECTION 4: REQUIRED SUPPLEMENTARY INFORMATION

Condition of Heritage Assets and Stewardship Lands

Heritage Assets

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

Stewardship Land

Stewardship land consists of conservation easements acquired under a variety of easement programs and authorities. NRCS's mission objectives in administering the conservation easement programs are to provide landowners with financial and technical assistance in return for maintaining and improving high quality productive soils, clean and abundant water, healthy plant and animal communities, clean air, an adequate energy supply, and working farm and ranch land. The following chart depicts the condition status of NRCS easements (see note 5 for more information about easement assets). The chart is based on data from the National Easements Staging Tool (NEST).

Condition	Description	Easements Meeting the Condition	Percentage
Green	Easements are being maintained in accordance with all terms and conditions	14,536	85%
Yellow	Easements with minor administrative issues requiring corrective actions to fully comply with all terms and conditions	1,599	9%
Red	Easements with documented violations that require corrective actions	294	2%
Not Assessed	Easements that did not require monitoring, had an undetermined condition, or were closed in FY 2015	889	5%
Total		17,318	100%

Table 34: Stewardship Easements Condition Status

Deferred Maintenance and Repairs

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

The NRCS portfolio of assets includes 29 sites with owned land or buildings. There are 24 Plant Materials Centers (PMCs), which are research farms consisting of an office building, greenhouse, service buildings, and warehouse and storage facilities. Other features of PMCs typically include equipment shelters, irrigation water wells, pumps or distribution systems, paved or gravel surfaces, and fuel storage and pumps. Four sites include a small NRCS field office and storage facility, and two unmanned relay stations for snow survey and climate data. One other sites are inactive and in the disposal process.

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

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

Deferred Maintenance Policies

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

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

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

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

Estimated Deferred Maintenance

The dollar amounts in the following table includes costs to return assets with deferred maintenance at the 28 active facilities to acceptable condition.

Asset Class	Overall Condition	Cost to Return to Acceptable Condition (dollars)		
		Beginning Balance (October 1, 2014)	Ending Balance (September 30, 2015)	Change in Cost FY 2015
Office Buildings	critical-good	$265,062	$493,068	228,006
Greenhouses	poor-good	54,444	87,890	33,446
Service Buildings	critical-good	178,198	286,109	107,911
Warehouse/Storage Buildings	critical-good	265,187	435,837	170,650
Other Buildings	critical-good	110,310	137,053	26,743
Irrigation Systems	critical-good	14,337	87,537	73,200
Other Structures and Features	critical-good	81,576	113,194	31,618
Total		**$969,114**	**$1,640,688**	**$671,574**

Table 35: Deferred Maintenance, Totals By Asset Class

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

Estimated Deferred Maintenance

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

4 - New/Excellent: new or excellent condition;

3 - Acceptable/Satisfactory as-is: requires only routine maintenance;

2 - Below Acceptable but Usable/Satisfactory as-is: repair or replacement is required in the near term due to current physical condition or estimated remaining useful life; and

1 - Failed/Unusable: immediate repair, replacement, or significant maintenance is required.

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

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

Condition Index	Condition Rating	Number of NRCS Assets
Greater than 95.00	Good	361
Between 90.00 and 94.99	Satisfactory	41
Between 70.00 and 89.99	Poor	31
Less than 70.00	Critical	15
Total		**448**

Table 36: Condition, Definition, and Characterization of Assets

NRCS manages its buildings in compliance with regulations and guidance from GSA, USDA, and Executive Orders. Buildings shall also comply with applicable codes such as the National Life Safety Code, Occupational Safety and Health Administration rules, and the Architectural Barriers Act Accessibility Standard, and other regulatory and compliance requirements as determined by condition surveys. NRCS applies these regulations and requirements consistently to all major classes of PP&E. Guidelines used may vary from the norm based on the mission of each facility and use of each asset.

NRCS made significant investments in FY 2015 to address the backlog of deferred maintenance. Many of these projects will be completed in FY 2016.

National Resources Conservation Service

Combined Statement of Budgetary Resources by Major Budget Account

For the Year Ended September 30, 2015
(in millions)

Budgetary Resources:	Farm Bill	Conservation Operations	Watershed & Flood Protection	Watershed Rehabilitation	Other	Total
Unobligated balance, brought forward, October 1	$3,086	$115	$312	$12	$24	$3,549
Recoveries of prior year unpaid obligations	298	23	13	26	4	364
Other changes in obligated balance		(11)			(22)	(33)
Unobligated balance from prior year budget authority, net (Note 15)	3,384	127	325	38	6	3,880
Appropriations (discretionary and mandatory)	3,116	846	79	80	4	4,125
Spending authority from offsetting collections (discretionary and mandatory)	153	34	29	22	0	238
Total budgetary resources (Notes 17 and 19)	6,653	1,007	433	140	10	$8,243
Status of Budgetary Resources						
Obligations Incurred (Notes 15, 16, 17, 18, and 19)	3,076	793	103	116	5	$4,093
Unobligated Balance, end of year:						
Apportioned	1,278	166	340	22	2	1,808
Unapportioned	2,299	48	(10)	2	3	2,342
Total unobligated balance, end of year	3,577	214	330	24	5	$4,150
Total budgetary resources (Notes 17 and 19)	6,653	1,007	433	140	10	$8,243
Change in obligated balance:						
Unpaid obligations:						
Unpaid obligations, brought forward, October 1	3,866	211	131	274	13	$4,495
Obligations incurred	3,076	793	103	115	6	4,093
Outlays (gross)	(2,821)	(768)	(82)	(48)	(3)	(3,722)
Recoveries of prior year unpaid obligations	(298)	(22)	(13)	(26)	(5)	(364)
Unpaid obligations, end of year (Note 16)	3,823	214	139	315	11	$4,502
Uncollected payments:						
Uncollected payments, Federal sources, brought forward, October 1	(65)	(47)	(81)	0	0	$(193)
Change in uncollected payments, Federal sources	16	(6)	(23)	0	0	(13)
Uncollected payments, Federal sources, end of year	(49)	(53)	(104)	0	0	$(206)
Memorandum (non-add) entries:						
Obligated balance, start of year	3,801	164	50	274	13	4,302
Obligated balance, end of year	3,774	161	35	315	11	$4,296
Budget Authorities and Outlays, Net:						
Budget authority, gross (discretionary and mandatory)	3,269	880	108	102	4	$4,363
Actual offsetting collections (discretionary and mandatory)	(169)	(28)	(6)	(21)	0	(224)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	16	(6)	(23)	0	0	(13)
Budget authority, net (discretionary and mandatory)	3,116	846	79	81	4	$4,126
Outlays, gross (discretionary and mandatory)	2,821	768	82	48	3	3,722
Actual offsetting collections (discretionary and mandatory)	(169)	(28)	(6)	(21)	0	(224)
Outlays, net (discretionary and mandatory)	2,652	740	76	27	3	3,498
Distributed offsetting receipts					(2)	(2)
Agency outlays (discretionary and mandatory)	2,652	740	76	27	1	$3,496

The accompanying notes are an integral part of these statements.

SECTION 5: OTHER INFORMATION

Schedule of Spending

The Schedule of Spending (SOS) presents an overview of how and where the NRCS is spending money. The data used to populate this schedule are the same underlying data used to populate the SBR.

NRCS
Natural Resources Conservation Service

Schedule of Spending

For the Year Ended September 30, 2015
(in millions)

Schedule of Spending	Budgetary
What Money Is Available to Spend?	
Total resources used to finance activities	$8,243
Less Amount Available but Not Agreed to be Spent	1,808
Less Amount Not Available to be Spent	2,342
Total Amounts Agreed to be Spent	**4,093**
How was the Money Spent/Issued?	
Ensure Our National forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources	
Personnel Compensation and Benefits	989
Travel and Transportation	30
Rent, Communications, and Utilities	99
Other Contractual Services	570
Supplies and Materials	16
Equipment, Land, and Structures	232
Grants, Subsidies, and Contributions	2,150
Other	7
Total	**4,093**
Total Amounts Agreed to be Spent	**4,093**
Who Did the Money Go To?	
Federal	**697**
Non-Federal	**3,396**
Total Amounts Agree to be Spent	**4,093**

Other Information

Management Challenges

The Reports Consolidation Act of 2000 requires the USDA Office of Inspector General (OIG) to identify and report annually on the most serious management challenges the Department faces. The following management challenges were identified and linked to NRCS in the OIG's FY 2015 Management Challenges report:

Management Challenge 3 – Action Needed to Improve Natural Resources Stewardship. (Prior Challenge 6)

OIG wrote the following concerning NRCS and Natural Resource Stewardship in its audit, *Environmental Quality Incentives Program (10601-0001-31, July, 2014)*:

Without strong controls in place to ensure compliance and effective program operations, NRCS cannot ensure that its budget for conservation efforts, $4.25 billion in FY 2013, is used efficiently or correctly. NRCS's controls over the Environmental Quality Incentives Program (EQIP) need to be strengthened in order to meet its goal of providing financial and technical assistance to participants to build practices that will address pressing environmental concerns.

OIG determined the following:

- NRCS state offices do not sufficiently base their allocations on environmental concerns;
- NRCS inconsistently verifies that practices are completed prior to payment.

The following corrective actions have been implemented:

- Updated the Environmental Quality Incentives Program (EQIP) manual. Applicable reference is Title 440-Programs, Section 515, Subparts D and G;
- Conducted an analysis of state allocation formulas to ensure that identified resource concerns are the primary factor for allocating EQIP funding, and provided FY 2014 EQIP allocation methodology to the Department's Office of Chief Financial Officer (OCFO);
- Completed policy update GM-450-Part 407, Subpart A and B; on proper documentation and certification and documentation procedures.

The following corrective actions are in progress:

- Science and Technology Deputy Area is in the process of issuing updated national guidance for GM-450-Part 4-7, Subpart A and B; on proper documentation procedures for final action.

Additionally, OIG wrote the following regarding Management Challenge 3 in its audit: *NRCS Conservation Easement Compliance (10601-0002-31, July 2014)*.

Since 1992, NRCS has protected and restored over 3 million acres of wetlands, grasslands, forests, and farmlands through the various easement programs it administers. NRCS monitors more than 15,000 easements annually. NRCS has a long-term responsibility to ensure the different easement program objectives are achieved and statutory requirements are met on these lands. Conservation easements are for 30 years or for perpetuity, and since their number is growing, NRCS must establish effective systems to monitor them.

Other Information

OIG determined the following:

- Personnel performing onsite monitoring are not detecting violations, mistakes, and outdated items, both on easements and in the related files;
- NRCS is not effectively tracking easement monitoring;
- NRCS needs to ensure the quality and completeness of National Easement Staging Tool (NEST) data
- NRCS is not consistently detecting violations, properly reporting easement status, or correcting non-compliances, all of which could compromise the environmental benefits of the easements and diminish the agency's ability to effectively monitor its easement investments

The following corrective actions have been implemented:

- A section was added to the Annual Monitoring Worksheet (AMW) for monitors to enter active Compatible Use Authorization (CUA) data;
- Applicable policy on easement monitoring requirements was drafted (NB 440-15-6, December 4, 2014);
- Easement Program Division (EPD) provided training to states on what is required during on-site monitoring;
- Training on quality assurance of monitoring data prior to entry into NEST was provided to States;
- Incorporated edit checks in NEST to prevent inaccurate dates from being entered into the CUA fields;
- NRCS developed an action plan and procedures that ensured timely renewal of the Assessment and Accreditation (A&A) and Approval to Operate (ATO) documents for NEST;
- Developed procedures giving State offices clear timeframes or expectations for when landowners should be notified regarding noncompliant activities on their easements

The following corrective actions are in progress:

- Revised policy instructing monitors to completed information regarding CUA is currently in clearance;
- NHQ will supplement the State training presentations with overarching national guidance. This training will be delivered to NRCS State offices and then distributed for States to deliver to state level partners by December 31, 2015;
- Draft policy and template letters for new landowners and existing landowners reminding them of the terms of their easement agreements are awaiting clearance and OGC review and approval;
- EPD will conduct annual random sampling of AMW to NEST data by September 30, 2016;
- EPD will develop automated controls in NEST to identify or prevent inaccurate data entry;
- The template letters to landowners will be released with new Agricultural Conservation Easement Program (ACEP) manual. The new policy is subject to NRCS clearance and OGC review;
- EPD will develop NEST business rules for States to enter additional information regarding easement noncompliance. The information will expedite easement monitoring and assist with the timely correction of noncompliant activities. New policy defining and tracking noncompliant activities is subject to NRCS clearance and OGC review.

Management Challenge 4 – Identifying, Reporting, and Reducing Improper Payments Can Strengthen USDA Programs. (Prior Challenge 8)

OIG described this challenge in its audits, *Executive Order (EO) 13520, Reducing Improper Payments, Fiscal Year 2014 High-Dollar Overpayments Report Review* (50024-0007-11, August 2015) and *Executive Order (EO) 13520, Reducing Improper Payments, Fiscal Year 2014 IPERA Compliance Review for FY 2014* (50024-0008-11, May 2015).

OIG determined the following:

- USDA did not comply with IPERA;
- More aggressive goals should be set up to help USDA achieve compliance with IPERA;
- USDA needs to improve internal controls for reducing improper payments; and
- NRCS needs to implement actions to provide adequate evidence and strengthen its internal control over financial reporting.

The following corrective actions have been implemented:

Department-wide:

- USDA successfully implemented the Do Not Pay portal with the Treasury and is performing post adjudication on all USDA payments.

NRCS:

- Released National Instruction 120-354 in FY 2015, which states that NRCS will verify that the applicable entity type has fully complied with the instruction's requirements prior to awarding a conservation program contract or agreement, and that failure to comply will be cause for NRCS to use that determination as a basis for making an award to another applicant. Additionally, for these applications, the records will be checked, and the registration status confirmed for each payment thereafter;
- Implemented standardized procedures for the direct entry of easement obligations that include checklists and verification of the Data Universal Numbering System and System for Award Management (SAM) requirements;
- Implementation enhanced internal controls nationwide in January 2015. The Easements Program Division (EPD) has a monthly online conference and the Internal Controls Team implemented a monthly question and answer session with national programs managers. EPD will remind program staff of the SAM registration requirements with an emphasis on including restoration agreements during an upcoming EPD conference by the end of the fiscal year. Nationwide EPD training and teleconferences will be conducted during FY 2016 on documenting ownership length;
- Developed a standardized procedure for reviewing payments related to prior year contracts, which is currently in clearance; and
- Updated ProTracts in September 2015 to automatically check sam.gov registration prior to award and payment.

Summary of Financial Statement Audit and Management Assurances

Summary of Existing Material Weaknesses

NRCS's previous and existing material weaknesses and financial system non-conformance as related to management's assurance for the Federal Managers' Financial Integrity Act and the certification of the Federal Financial Management Improvement Act are listed in the following tables.

Summary of Financial Statement Audit						
Audit Opinion	Disclaimer					
Restatement	No					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Improved Accounting and Controls Needed Over Undelivered Orders	1					1
Improved Controls Over Financial Operations	1					1
Improved Accounting and Controls Needed Over Expenses	1			1		0
Improved Accounting and Controls Needed Over Revenue and Accounts Receivable	1		1			0
Improved Accounting and Controls Needed Over the Grassland Reserve Program		1				1
TOTAL MATERIAL WEAKNESS	**4**	**1**	**1**	**1**		**3**

Table 37: Summary of Financial Statement Audit

Effectiveness of Internal Control Over Financial Reporting (FMFIA Section 2)						
Statement of Assurance	Qualified					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Improved Accounting and Controls Needed Over Undelivered Orders	1					1
Improved Accounting and Controls Over Financial Operations	1					1
Improved Accounting and Controls Needed Over Expenses	1			1		0
Improved Accounting and Controls Needed Over Revenue and Accounts Receivable	1		1			0
Improved Accounting and Controls Needed Over the Grassland Reserve Program		1				1
TOTAL MATERIAL WEAKNESS	**4**	**1**	**1**	**1**		**3**

Table 38: Summary of Management Assurances/Financial Reporting

Effectiveness of Internal Control Over Operations (FMFIA Section 2)						
Statement of Assurance	Qualified					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Improved Accounting and Controls Needed Over Undelivered Orders	1					1
Improved Controls Over Financial Operations	1					1
Improved Accounting and Controls Needed Over Expenses	1			1		
Improved Accounting and Controls Needed Over the Grassland Reserve Program		1				1
TOTAL MATERIAL WEAKNESS	**3**	**1**		**1**		**3**

Table 39: Summary of Management Assurances/ Operations

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
1. System Requirements	No lack of substantial compliance noted	No lack of substantial compliance noted
2. Accounting Standards	Lack of substantial compliance noted	Lack of substantial compliance noted
3. USSGL at Transaction Level	Lack of substantial compliance noted	Lack of substantial compliance noted

Table 40: FFMIA Compliance

Improper Payments

Improved financial performance through the reduction of improper payments continues to be a key financial management focus for the Federal government. Improper payment legislation has evolved since 2002. The most recent improper payment legislation was passed in January 2013 as the Improper Payments Elimination and Recovery Improvement Act (IPERIA). Agencies are required to annually review all programs and activities that could be susceptible to significant improper payments. Each Federal agency must assess all of its programs and identify which, if any, programs may be subject to high risk with respect to improper payments. Agencies are also required to implement corrective measures and establish targets. Additionally, agencies are required to utilize the Do Not Pay database managed by the Department of Treasury during pre-award, pre-payment and post-payment business processes. NRCS is currently utilizing Treasury's Do Not Pay portal to identify potential improper payments.

FY 2015 Results

Based on testing performed on the Farm Bill assistance payments, NRCS's improper payment rate was 22 percent. The majority of the improper payments were related to entity participants that self-certified registration in the System for Award Management (SAM) when in fact they were not registered. SAM registration is required to ensure that NRCS does not pay entities barred from doing business with the federal government. These improper payments were not related to fraud. The payments were made to the correct payees for conservation work that was in fact performed.

The root causes of the improper payments can be summarized in the following chart:

Root Causes of Improper Payments			Overpayment (%)	Overpayment ($)
Failure to Verify	Other Eligibility Data	Entity participant did not register in sam.gov as required.	87%	$408,162,757
	Other Eligibility Data	Participants did not comply with the highly erodible land or adjusted gross income requirements.	5	23,078,757
	Other Eligibility Data	Participant incorrectly self-certified beginning farmer status.	1	6,587,959
Administrative or Process Error Made By:	State Agency	Participant did not own or control land for the required time frame before payment was made.	7	29,963,405
Total			**100%**	**$467,792,878**

Table 41: Root Causes of Improper Payments

NRCS also performed improper payment testing on NRCS's Disaster Relief payments related to Hurricane Sandy and floodplain easement projects. No improper payments were noted.

Other Information

Corrective Actions

Since improper payment testing is performed on payments made in the prior fiscal year, corrective actions implemented may not have an immediate impact on the improper payment rate. Despite NRCS efforts to decrease improper payments, the improper payment rate may continue to increase for a few years as NRCS continues to enhance its methodologies for identifying and reporting improper payments. And in some cases, corrective actions could take several years to impact the improper payment rate.

In FY 2015, NRCS took the following actions to address improper payment issues:

- Reinforcing policies regarding appraisal review requirements and preliminary title opinions during conferences;
- Forming a cross functional working group to recommend additional corrective actions regarding SAM registration. These recommendations are currently being considered by NRCS management;
- Establishing an Easement Internal Control Team to review high risk easement transactions prior to obligation and payment;
- Implementing a National Accounts Payable Team to ensure adequate supporting documentation for all non-ProTracts payments; and
- Updating ProTracts to systematically check sam.gov registration prior to obligation and payment.

NRCS plans to further address improper payments by reminding the State offices during regular teleconferences of requirements regarding sam.gov registration, restoration agreements, land ownership, highly erodible land eligibility, and adjusted gross income.

Other Information

Risk Assessments

The Department issues detailed guidance for the risk assessment process. Programs with larger outlays are required to perform more detailed assessments than smaller programs. Agency programs deemed high risk are required to be tested on an annual basis. Programs deemed low risk are required to be tested on a rotational basis.

Farm Bill financial assistance payments are considered to be high risk and require testing every year. Farm Bill technical assistance payments and payments related to other non-Farm Bill programs (e.g., Soil Survey programs) are considered low risk and are tested on a rotational basis per guidelines provided by the Department. NRCS's Disaster Relief Programs are also considered high risk for improper payments.

The risk assessment process includes the following:

- Amount of improper payments needed to meet the reporting standards;
- Description of the program, including purpose and basic eligibility requirements;
- Definition of improper payments specific to the program;
- Program vulnerabilities linked to improper payments;
- Internal controls designed to offset the program vulnerabilities;
- Internal controls testing for selected programs;
- Listing of significant reviews and audits;
- Final determination of risk level;
- Planned future enhancements; and
- Description of how improper payments are recovered.

Statistical Sampling Process

In FY 2015, 271 Farm Bill financial assistance transactions (considered high risk) were statistically sampled and tested based on FY 2014 outlays. High risk improper payments totaling $32,721,462 were identified. It is noted that one improper payment of $29,936,405 comprised the majority of the improper payments identified. This improper payment was made to a landowner who did not own the land for the required length of time. High risk improper payments were extrapolated to the entire high risk population, resulting in an estimated $467,792,878 of improper payments.
Testing criteria was applied to verify the following:

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

NRCS also performed improper payment testing on Watershed program payments which are considered low risk. 238 Watershed payments were tested, based on FY 2014 outlays. Low risk improper payments totaling $4,065,887 were identified. Low risk improper payments were extrapolated to the entire low risk population, resulting in an estimated $5,487,320 of improper payments. The improper payments were primarily a result of the sam.gov registration issues noted above.

Improper Payment Reporting

In addition to annual testing, NRCS also identifies improper payments through self-reporting by states and centers. On a quarterly basis, states and centers are required to report all improper payments and recoveries of improper payments. Self-reported improper payments include payments made regarding ineligible land, ineligible participants, duplicate payments, and payments made to the wrong payee. Improper payments are also identified by the Office of the Inspector General (OIG) and Government Accountability Office (GAO) program audits.

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

The table below depicts all improper payments identified and recovered

How Identified	Improper Payment Amount Identified Current Year	Improper Payment Amount Recovered – Current Year
Annual Testing	$36,787,349	$0
Self-Reported by States/Centers	3,838,363	967,346
Reported by Participant	700,457	300,028
OIG & GAO Audits	0	1,500,000
Totals	**$41,326,169**	**$2,767,374**

Table 42: Improper Payments and Recoveries from August 1, 2014 to July 31, 2015

The next table shows NRCS's Conservation Financial Assistance outlays and associated improper payment rates for FYs 2014 and

	FY 2014			FY 2015		
Program	Outlays	Improper Payment (IP) %	IP$	Outlays	IP%	IP$
Conservation Financial Assistance Programs	$2,199	23.08%	$508	$2,122	22.04%	$468

Table 43: Improper Payment Rates ($ in millions)

The following table provides a detailed breakout of NRCS's high risk improper payment rate for the year ended September 30, 2015. All of the improper payments were overpayments made as a result of incorrect disbursements.

Improper Payments	Percentage	Amount $
Incorrect Disbursement	22.04%	$468
Total Improper Payments	22.04%	468
Over-Payments	22.04%	468
Total	**22.04%**	**$468**

Table 44: Detail Regarding Improper Payments for ($ in millions)

The following chart depicts future year outlays and improper payment estimates for NRCS's high risk program based on directives issued by the Department:

Future Improper Payment (IP) Estimates (in millions)	FY 2016			FY 2017			FY 2018		
Program	Outlays	IP%	IP$	Outlays	IP%	IP$	Outlays	IP%	IP$
Conservation Financial Assistance program	$3,718	9.9%	$368	$3,177	9.7%	$308	$3,589	9.5%	$341

Table 45: Future Outlays and Improper Payment Estimates for NRCS's High Risk Program

NRCS has implemented internal controls to prevent improper payments, but there is room for improvement. NRCS is updating policies and guidance, having managers build an atmosphere in which reducing improper payments is a top priority, establishing accountability through performance standards, examining the root causes of errors, and developing appropriate corrective actions.

The following table depicts the level of internal controls that are in place for NRCS's high risk programs.

Internal Control Standards					
Program	Control Environment	Risk Assessment	Control Activities	Information and Communication	Monitoring
Farm Bill Financial Assistance	3	3	2	3	3
Hurricane Sandy Programs	3	3	3	3	3

Legend:
4 - Sufficient controls are in place to prevent improper payments
3 - Controls are in place to prevent improper payments but there is room for improvement
2 - Minimal controls are in place to prevent improper payments
1 - Controls are not in place to prevent improper payments

Table 46: Internal Controls in Place for NRCS High Risk Programs

Accountability

NRCS ensures that agency managers are held accountable for reducing and recovering improper payments. NRCS incorporated specific language regarding the prevention, identification and recovery of improper payments into the performance plans of the Associate Chief of Operations, Regional Conservationists, State Conservationists, and the Chief Financial Officer.

Barriers

Adjusted Gross Income (AGI) eligibility has been delegated to the USDA Farm Services Agency (FSA) and NRCS has successfully coordinated with FSA to implement FSA's validation of AGI certifications so that any FSA changes in eligibility determinations are immediately effective for NRCS conservation program payments. For FY 2014 obligations, with the exception of the Agricultural Management Assistance (AMA) program, AGI eligibility was not applicable. Currently, NRCS is working with FSA to implement a real time Internal Revenue Service AGI verification process. This will allow NRCS to verify whether a producer meets the program AGI requirements prior to obligating a contract.

Additionally, NRCS's Conservation Security Program must pay participants in advance of the implementation of conservation enhancement activity. NRCS is statutorily required to pay participants at the beginning of the fiscal year in which the conservation enhancement activity is scheduled to be implemented. Since these payments are made in advance, improper payments are sometimes detected via annual quality assurance reviews but cannot always be prevented. The Conservation Security Program has now been replaced by the Conservation Stewardship Program. Under the Conservation Stewardship program, payments are not made in advance of performance.

The significant majority of the errors identified in the annual testing are related to the failure of entity participants to register in SAM prior to receiving payment. SAM registration is required by the Financial Accountability and Transparency Act regulations (2 CFR Part 25). NRCS has changed its policy to require verification of the SAM registration prior to issuing payments and made enhancements to ProTracts in September 2015 to validate sam.gov registration before obligation and payment.

Do Not Pay Initiative

NRCS is currently utilizing Treasury's Do Not Pay portal to identify potential improper payments. On a monthly basis, Treasury provides the Department a data file of payments made to individuals that are included on the Death Master File. The Department provides the information to the applicable agencies. NRCS researches the payments to determine if improper payments were made and initiates collection activities as appropriate.

The following table provides information about payment files researched from August 1, 2014 to September30, 2015 (numbers in dollars).

Databases Reviewed	Number of payments reviewed for improper payments	Dollars ($) of payments reviewed for improper payments	Number of improper payments stopped	Dollars ($) of improper payments stopped	Number of improper payments not stopped	Dollars ($) of Improper payments not stopped
Death Master File	351	$3,239,255	0	$0	110	$1,884,736

Table 47: Statistics for the Do Not Pay Initiative: August 1, 2014 -September 30, 2015

Recapture of Improper Payments

USDA spearheads efforts to recapture improper payments on behalf of each USDA agency. USDA conducted limited scope pilot payment recapture audits, as recommended by OMB Circular A-123, Appendix C. NRCS's programs were included in USDA's Supplier Credit Recovery Audit Program. The following tables highlight the results.

Overpayments Recaptured Through Payment Recapture Audits (in dollars)										
Program or Activity	Contracts				Benefits				Overpayments Captured Outside Payment Recapture Audits	
	Amount Identified	Amount Recovered	Current Year + 1 Target Rate (percent)	Current Year + 2 Target Rate (percent)	Amount Identified	Amount Recovered	Current Year + 1 Target Rate (percent)	Current Year + 2 Target Rate (percent)	Amount Identified	Amount Recovered
Supplier Credit Recovery Audit Program	$13,264	$13,264	100%	100%	$0	$0	100%	100%	N/A	N/A
Overpayments Recaptured Outside of Payment Recapture Audits	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$41,326,169	$2,767,373

Table 48: Overpayments Recaptured

Disposition of Funds Recaptured Through Recapture Audit (in dollars)								
Program or Activity	Amount Recovered	Type of Payment	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury
Supplier Credit Recovery Audit Program	$13,264	Unknown	$0	$0	$0	$0	$0	$13,264
Overpayments Recaptured Outside of Payment Recapture Audits	$2,767,373	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Table 49: Disposition of Funds Through Recapture Audit

Freeze the Footprint

OMB Memorandum 12-12, *Promoting Efficient Spending to Support Agency Operations,* requires federal agencies to dispose of excess properties and make more efficient use of real estate assets. USDA has also directed all of its agencies to not increase square footage of space above the FY 2012 baseline. The following tables compare the FY 2012 baseline with our current occupied square footage as of September 30, 2015, and baseline operations and maintenance costs with those incurred in FY 2014, per OMB requirements.

	FY 2012 Baseline	Current Year (CY) 2015	Change (2012-2015)
Square Footage	3,518,912	3,616,376	(97,464)

Table 50: Square Footage of Office and Warehouse Space

	FY 2012 Baseline	FY 2014 (CY-1)	Change (2012-2014)
Operation and Maintenance Costs	$33,071,118	$33,321,214	($250,096)

Table 51: Operations and Maintenance Costs - Owned and Direct Lease Buildings

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