



U.S. Department of the Interior
Office of Inspector General

AUDIT REPORT

**OFFICE OF SURFACE MINING
RECLAMATION AND ENFORCEMENT
FINANCIAL CONTROLS OVER
THE TECHNICAL ASSISTANCE AGREEMENT
WITH THE REPUBLIC OF INDONESIA**

**REPORT NO. 00-I-191
JANUARY 2000**

EXECUTIVE SUMMARY

**Office of Surface Mining Reclamation and Enforcement
Financial Controls Over the Technical Assistance Agreement
With the Republic of Indonesia
Report No. 00-I-191
January 2000**

BACKGROUND

In February 1995, the Office of Surface Mining Reclamation and Enforcement (OSM) entered into a \$3.2 million reimbursable technical assistance agreement with the Bureau of Environment and Technology of the Ministry of Mines and Energy, Republic of Indonesia, for a project to provide technical assistance to the Republic for developing, establishing, and implementing policy, regulations, and guidelines to control environmental effects caused by mining activities in Indonesia. In addition, the agreement states that OSM is to "keep accurate and systematic accounts and records in such form and detail as will clearly identify all relevant time charges and cost, and the bases thereof." Further, the agreement requires OSM to submit to the Republic and the International Bank for Reconstruction and Development quarterly reports that include itemized project expenditures for the previous quarter and an itemized estimate of additional funds requested. As of June 30, 1999, OSM had recorded \$2.9 million of expenditures for the project.

OBJECTIVE

The objective of the audit was to determine whether OSM (1) took adequate action to implement the recommendations contained in our December 1996 audit report "Office of Surface Mining Reclamation and Enforcement Financial Controls Over the Technical Assistance Agreement With the Republic of Indonesia" (No. 97-I-165) and (2) spent funds in compliance with the financial management, accounting, and reporting requirements of the agreement. The audit was initiated in response to a request from OSM's Acting Deputy Director.

RESULTS IN BRIEF

We concluded that OSM had fully implemented the three recommendations in our December 1996 audit report. In addition, we concluded, based on our review of the implementation of recommendations in the prior report, a review of the internal controls for the financial requirements stipulated in the technical assistance agreement, and verification tests of selected transactions, that OSM had spent funds in accordance with the terms of the technical assistance agreement with the Republic of Indonesia.

RECOMMENDATIONS

The report did not contain any recommendations.

AUDITEE COMMENTS AND OIG EVALUATION

On January 4, 2000, we held an exit conference with officials from OSM headquarters. The officials agreed with the conclusions presented in a draft of this report.



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

AUDIT REPORT

JAN 31 2000

Memorandum

To: Director, Office of Surface Mining Reclamation and Enforcement

From: Robert J. Williams *Robert J. Williams*
Assistant Inspector General for Audits

Subject: Audit Report on Office of Surface Mining Reclamation and Enforcement
Financial Controls Over the Technical Assistance Agreement With the Republic
of Indonesia (No. 00-I-191)

INTRODUCTION

This report presents the results of our audit of the Office of Surface Mining Reclamation and Enforcement's (OSM) financial management, accounting, and reporting controls for funds received under its technical assistance agreement with the Bureau of Environment and Technology of the Ministry of Mines and Energy, Republic of Indonesia. The audit was initiated in response to a request from OSM's Acting Deputy Director. The objective of the audit was to determine whether OSM (1) took adequate action to implement the recommendations contained in our December 1996 audit report "Office of Surface Mining Reclamation and Enforcement Financial Controls Over the Technical Assistance Agreement With the Republic of Indonesia" (No. 97-I-1 65) and (2) spent funds in compliance with the financial management, accounting, and reporting requirements of the agreement.

BACKGROUND

In February 1995, OSM entered into a \$3.2 million reimbursable technical assistance agreement with the Bureau of Environment and Technology of the Ministry of Mines and Energy, Republic of Indonesia, for a project to provide technical assistance to the Republic for developing, establishing, and implementing policy, regulations, and guidelines to control environmental effects caused by mining activities in Indonesia. The project is funded by a portion of a \$260.5 million loan to the Republic from the International Bank for Reconstruction and Development.

OSM's responsibility for the project is as follows: (1) its resident Project Director in Indonesia has overall field administrative responsibility; (2) its Finance Center staff in

Denver, Colorado, accounts for project costs and funds received; and (3) the program staff in the headquarters office in Washington, D.C., provide overall project coordination. . .

The agreement stipulates that the Republic provide periodic advance payments to OSM to cover necessary and agreed-to project expenditures. Specifically, OSM is to be reimbursed for all direct costs of the services provided and for administrative costs based on a fixed rate of 22.5 percent of the direct costs, excluding equipment items such as automobiles identified in the agreement. In addition, the agreement states that OSM is to “keep accurate and systematic accounts and records ... in such form and detail as will clearly identify all relevant time charges and cost, and the bases thereof.” Further, the agreement requires OSM to submit to the Republic and the Bank quarterly reports that include itemized project expenditures for the previous quarter and an itemized estimate of additional funds requested. As of June 30, 1999, OSM had recorded \$2.9 million of expenditures for the project.

SCOPE OF AUDIT

Our audit was performed at OSM’s headquarters office and its Finance Center. In a February 17, 1999, memorandum from OSM’s Acting Deputy Director, we were requested to review and audit funds expended by OSM under the agreement. As such, we statistically selected 64 project expenditure transactions, valued at \$215,034, for the period of February 1995 through June 1999 to determine whether OSM spent funds in accordance with the agreement. We also reviewed overhead calculations, project billing statements generated from the accounting system, and quarterly reports. We did not verify the accuracy of OSM’s overhead rate of 22.5 percent because it was established as a fixed rate in the agreement. During our audit, we also reviewed the actions taken by OSM to address the recommendations made in our December 1996 audit report.

Our audit was conducted in accordance with the “Government Auditing Standards,” issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances. We also reviewed the Departmental Reports on Accountability for fiscal years 1997 and 1998, which include information required by the Federal Managers’ Financial Integrity Act, and determined that there were no reported weaknesses related to the objective and scope of our audit.

PRIOR AUDIT COVERAGE

During the past 5 years, the General Accounting Office has not issued any audit reports concerning OSM’s agreement with the Republic. However, the Office of Inspector General issued the audit report “Office of Surface Mining Reclamation and Enforcement Financial Controls Over the Technical Assistance Agreement With the Republic of Indonesia” (No. 97-I-165) in December 1996. The report stated that OSM needed to strengthen its internal controls over preparation of the quarterly financial reports and the computation of overhead costs to ensure that (1) costs reported in the quarterly reports submitted to the Republic and the International Bank for Reconstruction and Development were in agreement with the costs recorded in the accounting records and (2) administrative overhead costs were

properly computed and accurately recorded. In addition, the report stated that OSM needed to improve coordination between the Project Director and other program staff in the Finance Center and the headquarters office to ensure timely identification and resolution of issues related to the agreement's financial management, accounting, and reporting requirements. The report contained three recommendations, all of which were considered resolved and subsequently referred to the Assistant Secretary for Policy, Management and Budget, Department of the Interior, for tracking of implementation. On March 4, 1997, the Department reported that the recommendations were implemented.

In addition, the Inspector General has issued six reports during this period on OSM's financial statements, as required by the Chief Financial Officers Act of 1990. The most recent report, "Office of Surface Mining Reclamation and Enforcement Financial Statements for Fiscal Years 1998 and 1997" (No. 99-I-245), issued in February 1999, stated, "Our tests of the internal controls over financial reporting and compliance identified no reportable weaknesses or conditions."

The five prior financial statement reports contained similar conclusions regarding OSM's internal control structure.

RESULTS OF AUDIT

We concluded that OSM had fully implemented the three recommendations in our December 1996 audit report. In addition, we concluded, based on our review of the implementation of recommendations in the prior report, a review of the internal controls for the financial requirements stipulated in the technical assistance agreement, and verification tests of selected transactions, that OSM had spent funds in accordance with the terms of the technical assistance agreement with the Republic of Indonesia.

Prior Audit Report Recommendations

Recommendation 1. Ensure that administrative overhead amounts recorded in accounting billing statements are computed accurately.

In our December 1996 report, we noted that OSM could not support its calculation of administrative overhead costs because it did not have adequate controls to ensure that the 22.5 percent fixed overhead rate was properly applied to the appropriate direct cost base. Specifically, OSM was unable to explain how the overhead amounts included in the quarterly reports for the periods ending September 30 and December 31, 1995, were calculated, including what equipment items and costs were excluded from the direct cost base before the overhead rate was applied.

In our followup review, we found that OSM had issued a memorandum dated January 23, 1997, which provided new guidance on recording direct costs and computing the overhead rate. Our review of OSM's administrative amounts included in the quarterly reports for fiscal years 1996, 1997, 1998, and 1999 (through June 30, 1999) showed that the costs were

computed accurately and supported by the official accounting records. Accordingly, we consider the recommendation implemented.

Recommendation 2. Ensure that direct and overhead costs included in the quarterly reports are reconciled to information in the accounting billing statement and the official accounting system and reviewed by either headquarters or Finance Center staff before the quarterly reports are provided to the Republic of Indonesia and the International Bank for Reconstruction and Development.

In our December 1996 report, we noted that the amount included in the billing statement, which was generated from OSM's automated accounting system, at September 30, 1995, was not in agreement with the amount reported by the Project Director in the quarterly report to the Republic for the same period. We concluded that this condition occurred because the Project Director, who was located in Indonesia, prepared the quarterly report, which was not reviewed by either the headquarters office or Finance Center staff.

In our followup review, we found that OSM had issued a memorandum dated January 23, 1997, which required that quarterly reports be prepared by the Finance Center and be reviewed by the headquarters office prior to submission to the Republic of Indonesia. In that regard, we found that the Finance Center prepared the quarterly reports and that the headquarters office reviewed the reports. In addition, the Finance Center reconciled the quarterly reports with the project billing statements that were generated from the accounting system. Accordingly, we consider the recommendation implemented.

Recommendation 3. Ensure that all program staff comply with the terms and conditions of the technical assistance agreement pertaining to the calculation of administrative overhead costs and preparation of the quarterly reports.

In our December 1996 report, we noted that OSM needed to improve coordination between the Project Director and other program staff in the Finance Center and the headquarters office to ensure timely identification and resolution of issues related to the agreement's financial management, accounting, and reporting requirements. We concluded that a contributing factor to this situation was that OSM program officials did not fully understand the agreement's overhead calculation process.

In our followup review, we found that OSM had issued two memoranda, both dated January 23, 1997, which provided guidance for recording project costs, calculating administrative overhead, and preparing and reviewing quarterly reports. Based on our review and tests of these procedures, we consider the recommendation implemented.

On January 4, 2000, we held an exit conference with officials from OSM headquarters. The officials agreed with the conclusions presented in a draft of this report. Since this report does not contain any recommendations, a response is not required.

Section 5(a) of the Inspector General Act (Public Law 95-452, as amended) requires the Office of Inspector General to list this report in its semiannual report to the Congress. In addition, the Office of Inspector General provides audit reports to the Congress.

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