



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

AUDIT REPORT

**INDEPENDENT AUDITORS REPORT ON
OFFICE OF SURFACE MINING
RECLAMATION AND ENFORCEMENT
FINANCIAL STATEMENTS FOR
FISCAL YEARS 1999 AND 1998**

**REPORT NO. 00-I-433
MAY 2000**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

MAY 10, 2000

INDEPENDENT AUDITORS REPORT

Memorandum

To: Director, Office of Surface Mining Reclamation and Enforcement

Subject: Independent Auditors Report on Office of Surface Mining Reclamation and Enforcement Financial Statements for Fiscal Years 1999 and 1998
(No. 00-I-433)

SUMMARY

In our audit of the Office of Surface Mining Reclamation and Enforcement's (OSM) financial statements for fiscal year 1999, we found the following:

- The principal financial statements were fairly presented in all material respects. OSM's principal financial statements consist of the Consolidated Statements of Financial Position as of September 30, 1999, and 1998, and the Consolidated Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing for the fiscal years ended September 30, 1999, and 1998.
- Our tests of internal controls identified a reportable condition involving OSM's general controls over its automated information systems. Specifically, OSM did not have an adequate security program; did not have controls over access to automated information systems resources, systems software, separation of duties, and software development and change management; and did not have assurance of continued operations in the event of a disaster or a system failure.
- Our tests of compliance with laws and regulations identified a noncompliance issue that is required to be reported concerning the Federal Financial Management Improvement Act of 1996.

Our conclusions are detailed in the sections that follow.

OPINION ON PRINCIPAL FINANCIAL STATEMENTS

In accordance with the Chief Financial Officers Act of 1990, we audited OSM's principal financial statements for the fiscal years ended September 30, 1999, and 1998, as contained

in OSM's accompanying 1999 Annual Report. These financial statements are the responsibility of OSM, and our responsibility is to express an opinion, based on our audit, on these principal financial statements.

Our audit was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States, and with Office of Management and Budget Bulletin 98-08, "Audit Requirements for Federal Financial Statements," as amended. These audit standards require that we plan and perform the audit to obtain reasonable assurance as to whether the accompanying principal financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the principal financial statements and the accompanying notes. An audit also includes assessing the accounting principles used and the significant estimates made by management. We believe that our audit work provides a reasonable basis for our opinion.

As disclosed in footnotes 3 and 20 to the principal financial statements, OSM restated the financial statements for fiscal year 1998. In OSM's 1998 Annual Report, the investments and the interest receivable on investments were reported separately in the Consolidated Statement of Financial Position. In OSM's 1999 Annual Report, the investments and the interest receivable on investments were combined into one line entitled "Investments." In addition, OSM changed the reporting of the fiscal year 1998 Abandoned Mine Lands appropriation. In the 1998 Annual Report, the \$210 million Abandoned Mine Lands appropriation for fiscal year 1998 was reported as Appropriated Revenue in the Consolidated Statement of Changes in Net Position. In the 1999 Annual Report, the Abandoned Mine Lands appropriations for fiscal years 1999 and 1998 were reported on the line entitled "Changes in Unexpended Appropriations" in the Consolidated Statement of Changes in Net Position.

In our opinion, the principal financial statements (pages 48-52) present fairly, in all material respects, the financial position of OSM as of September 30, 1999, and 1998, and its consolidated net cost, changes in net position, budgetary resources and outlays, and financing for the fiscal years ended September 30, 1999, and 1998, in conformity with generally accepted accounting principles. The supplemental statements of net cost and changes in net position for fiscal year 1999, which follow the notes to the consolidated financial statements (pages 53-67), were subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, are fairly stated in all material respects in relation to the principal financial statements taken as a whole.

REPORT ON INTERNAL CONTROLS

Our audit was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States, and with Office of Management and Budget Bulletin 98-08.

Management of OSM is responsible for establishing and maintaining an internal control structure which provides reasonable assurance that the following objectives are met:

- Transactions are properly recorded, processed, and summarized to permit the preparation of the principal financial statements and the required supplementary stewardship information in accordance with Federal accounting standards.

- Assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

- Transactions are executed in accordance with (1) laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the principal financial statements and the supplemental statements of net cost and changes in net position and (2) any other laws, regulations, and Governmentwide policies identified by the Office of Management and Budget.

- Transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

Because of inherent limitations in any internal control structure, errors or fraud may occur and not be detected. Also, projections of any evaluation of the internal controls over financial reporting to future periods are subject to the risk that the internal controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In planning and performing our audit, we considered OSM's internal controls over financial reporting by obtaining an understanding of OSM's internal controls, determined whether these internal controls had been placed in operation, assessed control risks, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing an opinion on the principal financial statements and the supplemental statements of net cost and changes in net position and not to provide assurance on the internal controls over financial reporting. Consequently, we do not express an opinion on internal controls.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal control structure over financial reporting that might be reportable conditions. Under standards established by the American Institute of Certified Public Accountants and by Office of Management and Budget Bulletin 98-08, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls that, in our judgment, could adversely affect OSM's ability to record, process, summarize, and report financial data consistent with the assertions made by management in the principal financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted a certain matter involving the internal control and operation that we consider to be a reportable condition as described by the American Institute of Certified Public Accountants and Office of Management and

Budget Bulletin 98-08. However, the reportable condition is not considered to be a material weakness.

OSM Needs Improved General and Application Controls Over its Automated Information Systems

The report "General and Application Controls Over Automated Information Systems, Office of Surface Mining Reclamation and Enforcement" (No. 00-I-138), issued by our office in December 1999, stated that the general controls over OSM's automated information systems were not effective. Specifically, OSM did not have an adequate security program that included security plans which addressed risks to sensitive financial data and sensitive automated information systems. Additionally, OSM did not have adequate controls over (1) access to automated information systems' resources, such as controlling the levels of access granted to system users, passwords, and password settings; (2) operating systems to ensure integrity over systems processing and data; (3) separation of duties between security administrators and security reviewers and the duties between application programmers and users; and (4) software changes to ensure that the changes were authorized, approved, and tested before being moved into production. Further, OSM did not develop a continuity of operations plan for its telecommunications links, did not finalize plans for its facilities and data center, and did not have an incident response plan or team. The lack of adequate controls increased the risk of unauthorized access and modifications to and the disclosure of OSM data, theft or destruction of OSM software and sensitive information, and loss of critical OSM systems and functions in the event of a disaster or a system failure. OSM concurred with the findings and recommendations contained in the report and took immediate actions to resolve the deficiencies. In its remediation plan, which was developed in response to the report, OSM indicated that all of the weaknesses would be corrected by September 30, 2000.

With respect to the internal controls related to the performance measures reported in OSM's overview (pages 17, 29, 37, and 47), we obtained an understanding of the design of significant internal controls related to the existence and completeness assertions, as required by Bulletin No. 98-08. Our procedures were not designed to provide assurance on internal controls over reported performance measures, and accordingly, we do not provide an opinion on such controls.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Our audit was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States, and with Office of Management and Budget Bulletin 98-08.

The management of OSM is responsible for complying with laws and regulations applicable to that agency. As part of obtaining reasonable assurance about whether OSM's principal financial statements are free of material misstatement, we performed tests of OSM's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and

certain other laws and regulations specified in Bulletin 98-08, including the requirements referred to in the Federal Financial Management Improvement Act of 1996. However, providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance with laws and regulations discussed in the preceding paragraph exclusive of the Federal Financial Management Improvement Act disclosed no instances of noncompliance that are required to be reported under the "Government Auditing Standards" or Bulletin 98-08.

Under the Federal Financial Management Improvement Act, we are required to report whether OSM's financial management systems were in substantial compliance with requirements for Federal financial management systems, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. To meet these requirements, we performed tests of compliance using the implementation guidance for the Federal Financial Management Improvement Act included in Appendix D of Bulletin 98-08.

We believe that the ineffective general controls over OSM's automated information systems discussed in the Report on Internal Controls section of this report are significant departures from certain requirements of Office of Management and Budget Circulars A-127, "Financial Management Systems," and A-130, "Management of Federal Information Resources," and are therefore instances of substantial noncompliance with the Federal financial management systems requirements under the Federal Financial Management Improvement Act.

Except as noted in the previous paragraph, the results of our tests of compliance disclosed no instances of noncompliance with other laws and regulations that are required to be reported under the "Government Auditing Standards" or Bulletin 98-08.

CONSISTENCY OF OTHER INFORMATION

We reviewed the financial information presented in OSM's overview (pages 7-47) and supplementary information (pages 68-69) to determine whether the information was consistent with the principal financial statements. Based on our review, we determined that the information in the overview was consistent with the principal financial statements.

PRIOR AUDIT COVERAGE

We reviewed prior Office of Inspector General and General Accounting Office audit reports related to OSM's financial statements to determine whether these reports contained any unresolved or unimplemented recommendations that were significant to OSM's financial statements or internal controls. We found that there were no reports which contained significant unresolved or unimplemented recommendations related to OSM's financial statements or internal controls.

OBJECTIVE, SCOPE, AND METHODOLOGY

Management of OSM is responsible for the following:

- Preparing the principal financial statements and the required supplemental information referred to in the Consistency of Other Information section of this report in conformity with generally accepted accounting principles and for preparing the other information contained in the 1999 Annual Report.

- Establishing and maintaining an internal control structure over financial reporting. In fulfilling this responsibility, estimates and judgments are required to assess the expected benefits and related costs of internal control structure policies and procedures.

- Complying with applicable laws and regulations.

We are responsible for the following:

- Expressing an opinion on OSM's principal financial statements.

- Obtaining an understanding regarding the effectiveness of the internal controls based upon the internal control objectives in Bulletin 98-08, which require that transactions be properly recorded, processed, and summarized to permit the preparation of the principal financial statements and the required supplemental information in accordance with Federal accounting standards; that assets be safeguarded against loss from unauthorized acquisition, use, or disposal; and that transactions and other data that support reported performance measures be properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

- Testing OSM's compliance with selected provisions of laws and regulations that could materially affect the principal financial statements or the required supplementary information.

To fulfill these responsibilities, we took the following actions:

- Examined, on a test basis, evidence supporting the amounts disclosed in the principal financial statements.

- Assessed the accounting principles used and the significant estimates made by management.

- Evaluated the overall presentation of the financial statements.

- Obtained an understanding of the internal control structure related to safeguarding assets; compliance with laws and regulations, including the execution of transactions in

accordance with budget authority; financial reporting; and certain performance measure information reported in the Overview.

- Tested relevant internal controls over the safeguarding of assets; compliance with laws and regulations, including the execution of transactions in accordance with budget authority; and financial reporting.

- Tested compliance with selected provisions of laws and regulations.

We did not evaluate all of the internal controls relevant to the operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to those controls necessary to achieve the objectives outlined in our report on internal controls.

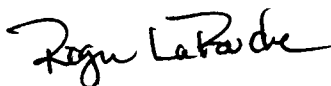
We also identified other issues that, in our judgment, were not required to be included in this audit report but that should be communicated to management. We have included these issues in a management letter that will be issued separately.

In an April 3, 2000, exit conference, OSM officials generally agreed with the findings contained in the report and made comments on the report. Their comments were considered in the preparation of this report and were incorporated as appropriate.

Since this report does not contain any recommendations, a response is not required.

Section 5(a) of the Inspector General Act (5 U.S.C. app. 3) 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.

This report is intended for the information of management of OSM and the Office of Management and Budget and the Congress. However, this report is a matter of public record, and its distribution is not limited.



Roger La Rouche
Acting Assistant Inspector General
for Audits

[CONTACT THE OFFICE OF SURFACE MINING RECLAMATION AND ENFORCEMENT FOR INFORMATION ON ITS FINANCIAL STATEMENTS FOR FISCAL YEAR 1999, WHICH ARE NOT INCLUDED]

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