



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20240

March 7, 2001

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 Year 2000 (No. 01-I-273)

We found that the Office of Surface Mining Reclamation and Enforcement's (OSM) principal financial statements¹ for fiscal year 2000 were fairly presented in all material respects. Our tests of the OSM's internal controls identified no material weaknesses, reportable conditions, or problems in performance measure reporting. In addition, our tests of the OSM's compliance with applicable laws and regulations found no instances of noncompliance that are required to be reported under the "Government Auditing Standards" or Office of Management and Budget Bulletin 01-02.

We found that the information presented in the Management Discussion and Analysis section and the supplementary information sections of the OSM's Accountability Report for fiscal year 2000 were consistent with the principal financial statements.

Since this report does not contain any recommendations, a response to the Office of Inspector General 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.

The Independent Auditors Report is intended for the information of management of the Department of the Interior, the Office of Management and Budget, and the Congress. The report, however, is a matter of public record, and its distribution is not limited.

Roger La Rouche
Assistant Inspector General
for Audits

¹The OSM's principal financial statements consist of the Consolidated Statement of Financial Position as of September 30, 2000 and the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Consolidated Statement of Budgetary Resources, and the Consolidated Statement of Financing for the fiscal year ended September 30, 2000.

Independent Auditors Report

Office of Surface Mining Reclamation and Enforcement

Financial Statements

Fiscal Year 2000

We have audited the Office of Surface Mining Reclamation and Enforcement's (OSM) principal financial statements for the fiscal year ended September 30, 2000. The OSM principal financial statements consist of the Consolidated Statement of Financial Position as of September 30, 2000 and the Consolidated Statement of Net Cost, the Consolidated Statement of Change in Net Position, the Consolidated Statement of Budgetary Resources, and the Consolidated Statement of Financing for the fiscal year ended September 30, 2000. These financial statements are the responsibility of the 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 (OMB) Bulletin 01-02, "Audit Requirements for Federal Financial Statements." These 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 contained 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, as well as evaluating the overall financial statement presentation. We believe that our audit work provides a reasonable basis for our opinion. The objective, scope, and methodology of our audit are discussed in the Appendix.

Opinion on Principal Financial Statements

In our opinion, the principal financial statements audited by us and appearing on pages 24-44 present fairly, in all material respects, the financial position of the OSM as of September 30, 2000 and its consolidated net cost, changes in net position, budgetary resources, and financing activities for the fiscal year ended September 30, 2000 in conformity with generally accepted accounting principles.

As discussed in Note 16, the OSM changed its accounting for appropriations of trust and special receipt revenues in accordance with new guidance from the Department of Treasury. This change required a restatement of the beginning balances from Unexpended Appropriations to Cumulative Results.

Our audit was conducted to form an opinion on the principal financial statements taken as a whole, and our opinion relates only to the principal financial statements. The supplemental financial and management information contained in the OSM's Accountability Report is presented for the purposes of additional analysis and is not a required part of the principal financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board or OMB Bulletin 97-01, "Form and Content of Agency Financial Statements," as amended. We applied certain limited procedures, including discussions with management, on the methods of measurement and presentation of this information to ensure compliance with OMB guidance and consistency with the financial statements. We found that the information presented in the Management Discussion and Analysis and the supplementary information sections of the OSM's Accountability Report for fiscal year 2000 were consistent with the principal financial statements. This information, however, has not been subjected to the auditing procedures applied in our audit of the principal financial statements, and accordingly, we express no opinion on it.

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 Bulletin 01-02.

In planning and performing our audit, we considered the OSM's internal controls over financial reporting by obtaining an understanding of the internal controls, determining whether the internal controls had been placed in operation, assessing control risks, and performing tests of controls to determine our auditing procedures for the purpose of expressing an opinion on the principal financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in Bulletin 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal controls, and accordingly, we do not express an opinion on the internal controls.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal controls over financial reporting

that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, 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 the OSM's ability to record, process, summarize, and report financial data consistent with the assertions made by management in the 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. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected.

We noted no matters involving internal controls and their operation that we consider to be material weaknesses or reportable conditions.

Performance Measures

In addition, with respect to internal controls related to performance measures reported in the Management Discussion and Analysis, we obtained an understanding of the design of the significant internal controls relating to the existence and completeness assertions, as required by Bulletin 01-02. Our procedures were not designed to provide assurance over internal controls over reported performance measures, and accordingly, we do not provide an opinion on such controls.

Report on Compliance With Laws and Regulations

We conducted our audit in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States, and with Bulletin 01-02.

Management of the OSM is responsible for complying with applicable laws and regulations. As part of obtaining reasonable assurance as to whether the OSM's financial statements are free of material misstatement, we performed tests of the 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 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to the OSM.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph, exclusive of the FFMIA, disclosed no instances of noncompliance that are required to be reported under the "Government Auditing Standards" or Bulletin 01-02.

Under the FFMIA, we are required to report whether the OSM's financial management systems substantially comply with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with the FFMIA section 803(a) requirements.

The results of our tests disclosed no instances in which the OSM's financial management system did not substantially comply with the three requirements discussed in the preceding paragraph.

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.

Prior Audit Coverage

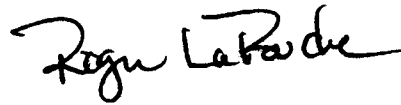
We reviewed prior Office of Inspector General and General Accounting Office audit reports related to the OSM's financial statements to determine whether these reports contained any unresolved or unimplemented recommendations that were significant to the OSM's financial statements or internal controls.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

In December 1999, the Office of Inspector General issued the report "General and Application Controls Over Automated Information Systems, Office of Surface Mining Reclamation and Enforcement" (No. 00-I-138). The report contained 38 recommendations addressing the ineffectiveness of the general controls over the OSM's automated information systems. During 2000, the Office of Inspector General did a followup review of the OSM's general and application controls over automated information systems. The Office of Inspector General concluded that the OSM took corrective actions on the recommendations and significantly improved the general controls over its automated information systems and is now in substantial compliance with the Federal financial management systems requirements under the FFMIA.

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 the Department of the Interior, the OMB, and the Congress. This report, however, is a matter of public record, and its distribution is not limited

A handwritten signature in black ink, reading "Roger LaRouche". The signature is fluid and cursive, with the first name "Roger" and last name "LaRouche" clearly distinguishable.

Roger La Rouche
Assistant Inspector General
for Audits
December 30, 2000

Objective, Scope, and Methodology

Management of the Office of Surface Mining Reclamation and Enforcement (OSM) is responsible for the following:

- Preparing the principal financial statements and the required supplementary information in conformity with generally accepted accounting principles and preparing the other information contained in the Accountability Report for fiscal year 2000.
- 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 the OSM's principal financial statements.
- Obtaining an understanding of the internal controls based on the internal control objectives contained in Bulletin 01-02, which require that transactions be properly recorded, processed, and summarized to permit the preparation of the principal financial statements and the required supplementary 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 the 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 principal 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 Accountability Report.
- 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 related to the operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls related to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to those controls needed to achieve the objectives outlined in our report on internal controls.