



United States Department of the Interior

Office of Inspector General
Washington, D.C. 20240

March 15, 2002

Memorandum

To: Director, Office of Surface Mining Reclamation and Enforcement

From: Roger La Rouché
Assistant Inspector General for Audits

Subject: Independent Auditors' Report on the Office of Surface Mining Reclamation and Enforcement's Financial Statements for Fiscal Years 2001 and 2000 (No. 2002-I-0021)

We contracted with KPMG LLP, an independent certified public accounting firm, to audit the Office of Surface Mining Reclamation and Enforcement's (OSM) financial statements for fiscal year 2001. The contract required that KPMG audit be conducted in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States of America; Office of Management and Budget Bulletin 01-02, *Audit Requirements for Federal Financial Statements*; and the General Accounting Office/President's Council on Integrity and Efficiency *Financial Audit Manual*. The Office of Inspector General (OIG) is responsible for the opinion on the balance sheet and related notes for fiscal year 2000.

In connection with the contract, we monitored the progress of the audit at key points and reviewed KPMG's report and related working papers and inquired of their representatives. Our review, as differentiated from an audit in accordance with *Government Auditing Standards*, was not intended to enable us to express, and we do not express, opinions on the OSM's financial statements or on conclusions about the effectiveness of internal controls or on conclusions about compliance with laws and regulations. KPMG is responsible for the auditors' report on the fiscal year 2001 financial statements (Attachment 1) and for the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply in all material respects with the *Government Auditing Standards*.

In its audit report dated December 21, 2001, KPMG stated that in its opinion the OSM's financial statements for fiscal year 2001 present fairly, in all material respects, the financial position of the OSM as of September 30, 2001, and its net cost of operations, changes in net position, budgetary resources, and reconciliation of net cost of operations to budgetary obligations for the year then ended in conformity with accounting principles

generally accepted in the United States of America. In our report dated December 21, 2001 (Attachment 2) we stated that in our opinion the OSM's consolidated balance sheet presents fairly, in all material respects, the financial position of OSM as of September 30, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG did not note any material weaknesses related to internal controls over financial reporting. With regard to compliance with laws and regulations, KPMG disclosed no instances of noncompliance that are required to be reported or instances where OSM's financial management systems did not substantially comply with the requirements of the *Federal Financial Management Improvement Act of 1996*.

Section 5(a) of the *Inspector General Act* (5 U.S.C. App. 3) requires the OIG to list this report in its semiannual report to the United States Congress.

The Independent Auditor's Report is intended for the information of the management of OSM, the Office of Management and Budget, and the United States Congress. This report, however, is a matter of public record, and its distribution is not limited.

Attachments (2)

[CONTACT THE OFFICE OF SURFACE MINING RECLAMATION AND ENFORCEMENT FOR INFORMATION ON ITS FINANCIAL STATEMENTS FOR FISCAL YEAR 2001, WHICH ARE NOT INCLUDED.]

A COPY OF THE
INDEPENDENT AUDITOR'S REPORT
IS ON THE PAGES THAT FOLLOW.



707 Seventeenth Street
Suite 2300
Denver, CO 80202

Independent Auditors' Report

The Director of the Office of Surface Mining Reclamation and Enforcement
and the Inspector General of the Department of the Interior:

We have audited the accompanying consolidated balance sheet of the Office of Surface Mining Reclamation and Enforcement (OSM) as of September 30, 2001, and the related consolidated statements of net cost, changes in net position, and financing and the combined statement of budgetary resources for the year then ended (hereinafter referred to as financial statements). The objective of our audit was to express an opinion on the fair presentation of these financial statements. In connection with our audit, we also considered the OSM's internal control over financial reporting and tested the OSM's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

Summary

As stated in our opinion on the financial statements, we concluded that the OSM's financial statements as of and for the year ended September 30, 2001 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined below in the Internal Control Over Financial Reporting section of this report.

The results of our tests of compliance with certain provisions of laws and regulations, exclusive of the Federal Financial Management Improvement Act of 1996 (FFMIA), disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The following sections discuss our opinion on the OSM's financial statements, our consideration of the OSM's internal control over financial reporting, our tests of the OSM's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of the OSM as of September 30, 2001, and the related consolidated statements of net cost, changes in net position, and financing and the combined statement of budgetary resources for the year then ended.



In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the OSM as of September 30, 2001, and its net cost of operations, changes in net position, budgetary resources, and reconciliation of net cost of operations to budgetary obligations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis section is not a required part of the financial statements, but is supplementary information required by the Federal Accounting Standards Advisory Board and OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information in the Supplementary Statement of Budgetary Resources by Major Budget Accounts is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Internal Control Over Financial Reporting

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Material weaknesses are 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 any internal control, misstatements due to error or fraud may occur and not be detected. We noted no matters involving the internal control and its operation that we consider to be material weaknesses as defined above. However, we noted other matters involving internal control over financial reporting and its operation that we have reported to the management of the OSM in a separate letter dated December 21, 2001.

Compliance With Laws and Regulations

The results of our tests of compliance with the laws and regulations described in the responsibilities section of this report, exclusive of FFMIA, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The results of our tests of FFMIA disclosed no instances in which the OSM's financial management systems did not substantially comply with the three requirements discussed in the responsibilities section of this report.

Responsibilities

Management's Responsibility

The Government Management Reform Act of 1994 (GMRA) requires a federal agency to report annually to Congress on its financial status and any other information needed to fairly present its financial position and results of operations. To meet the GMRA reporting requirements, the OSM prepares annual financial statements.

Management is responsible for:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America;
- Establishing and maintaining internal control over financial reporting and performance measures; and
- Complying with laws and regulations, including FFMIA.

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies.

Auditors' Responsibility

Our responsibility is to express an opinion on the fiscal year 2001 financial statements of the OSM based on our audit. We conducted our 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 OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes:

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

We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our fiscal year 2001 audit, we considered the OSM's internal control over financial reporting by obtaining an understanding of the OSM's internal control, determining whether internal control had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal control relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982. The objective of our audit was not to provide assurance on internal control over financial reporting. Consequently, we do not provide an opinion on internal control over financial reporting.

As required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in Management's Discussion and Analysis, we obtained an understanding of the design of significant internal control relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion on such controls.

As part of obtaining reasonable assurance about whether the OSM's fiscal year 2001 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 provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the OSM. Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Under FFMIA, we are required to report whether the OSM's financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

Distribution

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

KPMG LLP

December 21, 2001



United States Department of the Interior

Office of Inspector General
Washington, D.C. 20240

Independent Auditors' Report

To: Director, Office of Surface Mining Reclamation and Enforcement

Subject: Office of Surface Mining Reclamation and Enforcement's Financial Statements for Fiscal Year 2000

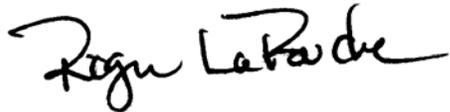
We have audited the Office of Surface Mining Reclamation and Enforcement's (OSM) consolidated balance sheet and related notes as of September 30, 2000. The objective of our audit was to express an opinion on the fair presentation of the consolidated balance sheet. This financial statement is the responsibility of the OSM, and our responsibility is to express an opinion, based on our audit, on this financial statement.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America: the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and with Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. These standards and OMB Bulletin No. 01-02 require that we plan and perform the audit to obtain reasonable assurance as to whether the accompanying balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures contained in the consolidated balance sheet 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 balance sheet presentation. We believe that our audit of the balance sheet provides a reasonable basis for our opinion.

In our opinion, the consolidated balance sheet referred to above presents fairly, in all material respects, the financial position of the OSM as of September 30, 2000 in conformity with accounting principles generally accepted in the United States of America.

During 2001, OSM became aware of certain payments that should have been accrued in the consolidated financial statements in 2000. As discussed in Note 20 to the financial statements, accounts payable with the public and net position have been restated to reflect these differences. The effect of these restatements increased accounts payable with the public and decreased net position by \$42,869,000.

In our report dated March 7, 2001, we expressed an opinion that OSM's statement of net cost for the year ended September 30, 2000 presented fairly, in all material respects, its net cost of operations in conformity with accounting principles generally accepted in the United States of America. As described in Note 19, OSM has restated its statement of net cost for the year ended September 30, 2000 to conform with the presentation of net cost for the year ended September 30, 2001. We did not audit the restated statement of net cost for the year ended September 30, 2000, and accordingly, we do not express an opinion on this statement.

A handwritten signature in black ink that reads "Roger La Rouche". The signature is written in a cursive, flowing style.

Roger La Rouche
Assistant Inspector General for Audits
March 7, 2001, except for Note 20
as to which the date is December 21, 2001