

# FINAL AUDIT REPORT

Bureau of Land Management  
Coal Inspection and Enforcement Program

OFFICE OF INSPECTOR GENERAL



*No. 2003- I-0064*

*September 2003*



## United States Department of the Interior

### OFFICE OF INSPECTOR GENERAL

Central Region  
134 Union Blvd., Suite 510  
Lakewood, Colorado 80228

September 10, 2003

#### Memorandum

To: Director, Bureau of Land Management

From: Anne L. Richards *Anne L. Richards*  
Regional Audit Manager

Subject: Final Audit Report, "Bureau of Land Management, Coal Inspection and Enforcement Program" (No. 2003-I-0064)

The enclosed report presents the results of our audit of the Bureau of Land Management's coal inspection and enforcement program. The objective of our audit was to determine whether the program adequately monitored coal production on federal and Indian leases. We found that the monitoring of federal coal production at the BLM field offices we visited was generally satisfactory.

At one field office, however, we found that inspection personnel did not document all inspections and did not always perform required independent verifications and comparisons between coal production reported by the company and BLM's calculations of coal production. We made one suggestion in the report that the Director ensure that all field office personnel adequately document quarterly inspections and perform all required production verifications.

Since this report does not include any recommendations, a response is not required. However, we would appreciate being kept informed of any additional actions you choose to take as a result of this report.

If you have any questions regarding this report, please contact me at (303) 236-9243.

Enclosure

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# ***AUDIT REPORT***

## **INTRODUCTION**

This report presents the results of our audit of the Bureau of Land Management's Coal Inspection and Enforcement Program. The objective of our audit was to determine whether the program adequately monitored coal production on federal and Indian leases.

## **BACKGROUND AND SCOPE**

BLM manages about 31 percent of all coal resources in the United States and oversees all phases of coal development on federal and Indian lands. BLM performs inspections of producing and non-producing coal leases on federal and tribal lands to verify coal production to ensure proper royalty billing and collection. BLM also inspects federally leased coal producing lands to determine whether the operations:

- Wasted or degraded other resources;
- Avoided or minimized damage to formations and deposits or nonmineral resources;
- Complied with applicable laws, rules, and orders and terms and conditions of federal leases and licenses;
- Complied with all requirements of approved exploration or resource recovery and protection plans.

The Code of Federal Regulations (43 CFR § 3480.0-6(d)(4)) requires the BLM to inspect at least quarterly federally leased lands where operations for the exploration, development, production, preparation, and handling of coal are conducted. BLM's policy requires that production reported to the Minerals Management Service (MMS) by the operator/lessee be independently calculated to ensure proper royalty billing and collection.

We performed our work from February through August 2002. We visited the BLM's State Office and White River and Little Snake field offices in Colorado; the Rock Springs and Casper field offices in Wyoming; and the Farmington field office in New Mexico. We visited active mines, interviewed Bureau employees responsible for monitoring mine activity, and reviewed inspection and production verification information. We concluded our audit work after visiting the several sites listed above because we did not identify any significant potential problems with the inspection and enforcement program at the locations we visited.

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## **RESULTS OF AUDIT**

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We found that the monitoring of federal coal production at BLM field offices visited was generally satisfactory. Most of the offices we visited had acquired or developed automated systems to aid them in verifying production quantities. At four of the five field offices we visited, the mine inspection and production verification reports were generally well documented. However, at the Farmington field office we found inspection personnel did not document all inspections and did not always perform required independent verifications and comparisons between coal production reported by the company and BLM's calculations of coal production. Inspection personnel at Farmington told us that they did perform the required quarterly inspections but failed to document them. Inspection personnel stated that they failed to document all quarterly inspections and perform all required production verifications because they were working on other assignments.

By not documenting inspections or verifying production, the Farmington field office is not able to assure that the production amounts reported by lessees, on which royalties are based, are accurate. We suggested that inspection personnel at the Farmington field office perform and document all required inspections and production verifications. Management officials at the Farmington field office stated that they have taken steps to correct the deficiencies identified.

**Suggested Action:** We suggest that the Director of BLM ensure that all field office personnel perform all required production verifications and adequately document quarterly inspections.

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## OTHER MATTERS

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During our audit, we also looked at coal royalty rate reductions in Colorado. BLM State Directors have the authority to award reduced royalty rates to companies meeting certain criteria. Reduced royalty rates can be awarded in order to encourage the recovery of coal resources. We reviewed two instances in Colorado where coal mining companies were receiving reduced royalty rates to determine whether they met eligibility requirements. In reviewing these two instances we found:

- One company submitted documentation with its reduced royalty rate application that did not conform to requirements. The financial statements submitted by the company as part of its application package were prepared and annotated as not intended to present the results of operations in conformity with generally accepted accounting principles. We brought this to the attention of BLM officials and they subsequently requested that the company provide the documentation that conformed to professional standards. In addition, we confirmed that the company was no longer receiving the reduced royalty rate after the reduced rate expired in January 2002.



- The other company initially appeared to be no longer eligible for the reduced royalty rate based on information we had obtained regarding the company's financial position. We suggested that BLM officials obtain more complete information from the company. BLM obtained such information and determined that the reduced royalty rate should remain in effect.

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## STANDARDS

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We conducted our work in accordance with the "Government Auditing Standards" issued by the Comptroller General of the United States with some exceptions because of the limited scope of the audit. We included such tests of records and other auditing procedures that were considered necessary under the circumstances. In conducting our audit work we found that BLM's monitoring of Federal coal leases was generally satisfactory and, except for the matters discussed in the Results of Audit section, nothing came to our attention that merited additional work. Therefore, we concluded our work at the end of the survey phase. As a result, the nature and scope of the work conducted was limited to those procedures performed during an audit survey. For example, management controls were not reviewed, and a risk assessment was not completed.

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## RESPONSE

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Since this report does not include any recommendations, a response is not required. However, we would appreciate being kept informed of any additional actions you choose to take as a result of this report.

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.

We wish to thank BLM for its assistance and cooperation and for taking timely actions to address the issues brought to their attention during our review. If you or your staff has any questions regarding this report please call Ms. Anne L. Richards, Regional Audit Manager at (303) 236-9243.

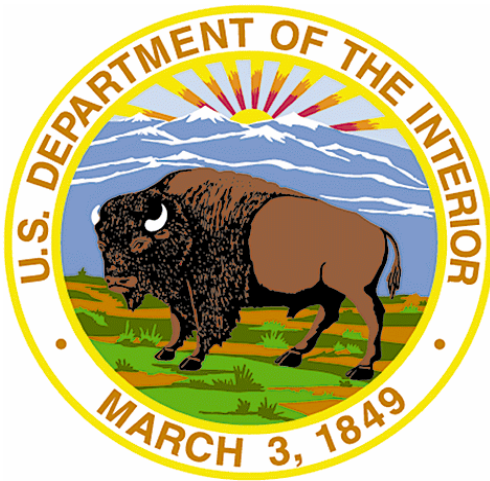
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