



United States Department of the Interior
Office of Inspector General
Washington, D.C. 20240

December 30, 2003

Memorandum

To: Director, Office of Surface Mining Reclamation and Enforcement

From: Roger La Rouché *Roger LaRouché*
Assistant Inspector General for Audits

Subject: Management Issues Identified During the Audit of the Office of Surface Mining Reclamation and Enforcement's Fiscal Year 2003 Financial Statements (Report No. C-IN-OSM-0024-2004)

We contracted with KPMG LLP (KPMG), an independent certified public accounting firm, to audit the Office of Surface Mining Reclamation and Enforcement's (OSM) financial statements as of September 30, 2003 and for the year then ended. In conjunction with its audit, KPMG noted certain matters involving internal control and other operational matters that should be brought to management's attention. These matters, which are discussed in the attached letter, are in addition to those reported in KPMG's audit report on OSM's financial statements (Report No. C-IN-OSM-0079-2003) and do not constitute reportable conditions as defined by the American Institute of Certified Public Accountants.

The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. If you have any questions regarding KPMG's letter, please contact me at (202) 208-5512.

The legislation, as amended, creating the Office of Inspector General, (5 U.S.C.A. App. 3) requires semiannual reporting to Congress on all audit reports issued, actions taken to implement audit recommendations, and recommendations that have not been implemented. Therefore, this report will be included in our next semiannual report.

Attachment

cc: Assistant Secretary for Land and Minerals Management
Chief Financial Officer, Office of Surface Mining Reclamation and Enforcement
Director, Office of Financial Management
Audit Liaison Officer, Land and Minerals Management
Audit Liaison Officer, Office of Surface Mining Reclamation and Enforcement
Focus Leader for Management Control and Audit Followup,
Office of Financial Management



Suite 2700
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October 31, 2003

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

We have audited the financial statements of the Office of Surface Mining Reclamation and Enforcement (OSM) as of and for the year ended September 30, 2003, and have issued our report thereon, dated October 31, 2003. In planning and performing our audit of the financial statements, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. The maintenance of adequate internal control designed to fulfill control objectives is the responsibility of management. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, controls found to be functioning at a point in time may later be found deficient because of the performance of those responsible for applying them, and there can be no assurance that controls currently in existence will prove to be adequate in the future as changes take place in the organization. We have not considered internal control since the date of our report.

During our audit, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established 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 control over financial reporting that, in our judgment, could adversely affect the OSM's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions. These matters have been reported to management in our report on the financial statements of the OSM as of and for the year ended September 30, 2003, dated October 31, 2003. In that report, we identified the following matters as reportable conditions:

- Security and Internal Control Over Information Technology Systems
- Internal Control Over Charge Cards

During our audit, we also noted certain other matters involving internal control and other operational matters that are not considered to be reportable conditions. We would like to bring these matters to your attention. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized below.

In addition to our 2003 comments and recommendations, we have reported the status of prior year management letter comments. Their current status is addressed in the Progress on Prior Year Management Letter Recommendations section of this letter.





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Timely Submission of Cost Reports

The Code of Federal Regulations (the Code) requires grantees of federal funds to submit financial status reports. The Code allows the federal agency to prescribe the frequency of the reporting. The OSM, as outlined in its Federal Assistance Manual (FAM), requires its regulatory program and abandoned mined land program grantees to submit financial status reports semiannually and annually, respectively. These reports are due 30 days and 90 days, respectively, after the end of a reporting period.

The FAM states that if a report is not submitted by the due date, the OSM field office shall call the grantee to provide notification of the delinquency, request the report, and establish a revised due date. The conversation shall be confirmed in a letter to the recipient. The letter should also request the recipient to provide an explanation if the report will not be submitted by the revised due date. If neither the report nor an acceptable explanation is submitted by the revised due date, a second letter shall be sent by the field office to the grantee stating that failure to submit the report within 30 days of the date of the letter may result in suspension or termination of the grant agreement, withholding of any additional awards for the project, and possibly additional and even more severe action.

Our audit found that the OSM did not always receive financial status reports in a timely manner. We noted seven instances in a sample of 32 items in which the grantee did not obtain filing extensions and submitted the reports past the applicable due date. For these seven instances, written correspondence was not sent to the grantees notifying them of the delinquency. The financial status reports are necessary for the OSM to monitor grantee financial performance and to record grant expenses and the deobligation of funds in the OSM's financial accounting records.

Recommendation

The OSM should implement its grantee reporting policies, as contained in its Federal Assistance Manual, to help ensure financial status reports are obtained in a timely manner and that follow-up on delinquencies is adequately documented.

Grant Monitoring

Monitoring of Single Audit Reports

Federal law, i.e., the Single Audit Act, requires nonfederal grantees to have an annual audit completed. The audit is to cover the grantee's financial statements and compliance with major federal program requirements. In addition, the Single Audit Act requires the federal agency which provided the funds to a grantee, to review the audit of the grantee as necessary to determine whether prompt and appropriate corrective action has been taken with respect to any audit findings.

Per the OSM's Federal Assistance Manual (FAM), it is OSM's policy to resolve all Single Audit findings in a timely and proper manner. The FAM describes the process as follows: The Department of the Interior Office of Inspector General (DOI OIG) receives a copy of an audit report from the cognizant federal agency for that state or tribe. (Note – the cognizant federal agency receives the report from the federal government's Federal Audit Clearinghouse, which receives the report from the grantee.) The DOI OIG logs in the report, and reviews and accepts the audit. It forwards a copy to OSM's Office of Strategic Planning and Budget. The Office of Strategic Planning and Budget reviews the report and forwards it to the appropriate OSM regional director for review. The regional director forwards the audit report to the OSM



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field office grant specialist who is responsible for following-up on audit findings. Per the FAM, all audit findings shall be resolved within 60 days of receipt by the OSM field office grant specialist.

Our audit found that OSM field offices do not always receive Single Audit reports in a timely manner. We obtained a listing of 27 states and tribes receiving grants from the OSM. For each entity, we reviewed the most recent Single Audit report submitted to the Federal Audit Clearinghouse. Five of the reports contained findings related to OSM grants. For these five grantees, we noted the following time lag between the date the Federal Audit Clearinghouse received the audit report and the date OSM's field office was notified of the finding.

State/Tribe	Fiscal Year-End	Received by Clearinghouse	OSM Field Office Notification of Findings	Lag Time (in months)
Illinois	June 30, 2001	July 2002	November 2002	Four
Montana	June 30, 2001	April 2002	September 2002	Five
New Mexico	June 30, 2002	April 2003	June 2003	Two
Pennsylvania	June 30, 2002	June 2003	Not yet received	Four +
West Virginia	June 30, 2002	April 2003	June 2003	Two

Single Audit reports may identify instances where federal funding is not being used in a manner consistent with the intent of grant regulations. Under the current elongated process, the implementation of corrective action may be delayed and result in further noncompliance or misuse of federal funds.

Site Visits

In addition to obtaining Single Audit reports, the OSM performs on-site monitoring of grantee programs. As part of our audit, we discussed grantee-monitoring procedures with five grant financial specialists responsible for larger grantees. Specific to the discussions were site visit frequency and procedures performed. Based on these discussions, we found varying levels of reviews being conducted, and that the reviews did not follow a standardized process. By not having standardized site visit procedures, the level and effectiveness of monitoring activities vary between grant specialists.

Monitoring of Single Audit Reports – Recommendation

OSM grant specialists should frequently review the Federal Audit Clearinghouse website to determine if grantee audit reports contain findings related to OSM grants. If findings are present, grant specialists should obtain audit reports directly from grantees, given reports are public information, and begin working with grantees on a resolution. Unlike the current elongated process, this will allow prompt corrective action to be implemented for any findings noted in the audit reports and may limit further grantee noncompliance or the misuse of federal funds.

Site Visits – Recommendation

The OSM should develop a standardized site visit review program or checklist to ensure on-site monitoring of grantee programs is consistent among grantees.



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Progress on Prior Year Management Letter Recommendations

The following is a summary of the implementation status of prior year management letter comments.

Comment	Status
Network Security – The OSM should improve network security from both an external and internal perspective.	Corrected.
Application Logical Access – The OSM should improve certain aspects of logical access for financial applications owned or used by the OSM.	Partially Corrected. As discussed in our report dated October 31, 2003, our 2003 audit found that OSM has not (1) finalized security policies for one of its financial support applications, (2) performed employee background investigations consistently and/or timely, and (3) implemented certain procedural and technical access controls over certain financial applications.
System Software – The OSM should develop formal policies over its operating system software.	Corrected.

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Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the OSM's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss with you in more detail any of the matters referred to in this letter.

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

Very truly yours,

KPMG LLP