

IX. Financial Statements and Notes

The following provides information on OSM's compliance with:

- Federal Managers' Financial Integrity Act (FMFIA);
- Federal Financial Management Improvement Act (FFMIA);
- Other key legal and regulatory requirements

Federal Managers' Financial Integrity Act (FMFIA)

The FMFIA requires agencies to annually provide a statement of assurance of the effectiveness of internal controls in achieving reliability of financial reporting, compliance with applicable laws and regulations, and reliability of performance reporting.

FMFIA Assurance Statement

Based upon OSM's comprehensive management control program, I am pleased to certify, with reasonable assurance, that OSM's systems of management, accounting, and administrative control achieve the objectives of Section 2 of the FMFIA. OSM can also provide reasonable assurance that its accounting and financial systems generally conform to the Comptroller General's principles, standards, and related requirements and achieve the objectives of Section 4 of the FMFIA.



Glenda Owens, Acting Director

Management Control Review

OSM conducted its annual assessment of agency programs and systems in accordance with the FMFIA and Office of Management and Budget Circular A-123. FMFIA requires OSM to conduct periodic reviews of its programs and systems to provide assurance management controls are in compliance with the applicable laws, regulations, and policies.

For fiscal year 2001, OSM conducted assessments of selected programs and administrative functions sufficient to ensure adequacy of controls in place. Areas for improvement were identified and corrective actions are being implemented. In general OSM found its management controls adequate to safeguard our programs and systems against waste, fraud, abuse, and mismanagement. No material weaknesses were identified.

FY 2001 MANAGEMENT CONTROL REVIEWS

REVIEW	SCOPE	Areas for Improvement
Acquisition Management	Targeted review questions for the Office of Property and Acquisition Management on the Contracting Officer's Technical Representative Certification Program and Bureau use of Convenience Checks.	N/A
Personal Property Management	Targeted review questions for the Office of Property and Acquisition Management on personal property management staffing levels.	N/A
Sensitive Automated Information System (<i>Pittsburgh LAN</i>)	1.Applicant Violator System (DFM) 2.Knoxville Field Office LAN 3.Lexington Field Office LAN 4.Lexington Applicant Violator LAN	Minor issues with system security identified for correction.
Applicant Violator System (AVS)	Review of controls in place to ensure entry of complete and timely data into AVS.	AVS program has adequate controls on place to accurately enter information in a timely manner.
Fee Compliance	Review of the reclamation fee compliance management process to include the controls surrounding the addition of new accounts, the management of current account status, and the closing of accounts.	No weaknesses identified, controls in place are adequate.
Administrative Control of Funds	Review of process and procedures for allocation of funds at the Appalachian Regional Coordinating Center.	Servicing Budget Officers continue to advise program managers of their legal and administrative responsibilities at least annually, as well as issue guidance to all offices explaining the fund accountability system.
Indian Lands Program	Review of selected processes that the Western Regional Coordinating Center follows in implementation of the Indian Lands Program.	The blaster certification exam needs to be updated, develop process to identify whether reciprocity-issued certificates should be revoked, ensure permit revisions are adequately documented, and issue guidance for termination of jurisdiction on initial program lands.
Federal Lands Program	Review of permit finding in the Washington Federal program; integrate information from a recently completed review of permit findings within the Tennessee Federal program.	Mine Coordinators and Technical Reviewers provided training to ensure all of the Review Criteria in the Technical Review Form are addressed. Also revise Technical Review Form to ensure all applicable regulations listed as part of the Review Criteria.

Federal Financial Management Improvement Act (FFMIA)

This law requires agencies to report on their substantial compliance with federal financial management system requirements, federal accounting standards, and the U.S. Government Standard General Ledger. It also requires agencies to provide full disclosure of financial data, which is accomplished through the financial statements included in this report. OSM substantially complies with the FFMIA.

OSM received an unqualified opinion on the financial statements and no material weaknesses in the report on internal controls and no non-compliance with laws and regulations that could have a direct and material effect on the determination of financial statement amounts.

Other Key Legal and Financial Regulatory Requirements

Prompt Payment Act

OSM substantially complies with the Prompt Payment Act as evidenced by the fact that 99 percent of its payments are made on time. OSM took the following steps to ensure that this continues:

- Charge cards were used to cut through red tape and expedite payment. Almost 94% of purchase transactions were made with charge cards in FY 2001, and the agency continues to promote their increased use, and
- Electronic funds transfer (EFT) was used to make 86% of the agency's vendor payments covering 99.9% of the dollar amount paid.

Debt Collection Improvement Act

OSM collected over 99.78% of the Abandoned Mine Land Reclamation Fees due this year, for a total of \$284 million. This is the result of an integrated fee compliance program that works with the coal mining industry to provide clear guidance on fee payment and reporting issues, as well as an active follow-up through audits and several other compliance activities. The current uncollected outstanding accounts receivable balance is \$4.2 million, comprised of \$3.9 million in AML Fees and Audit debt, and \$0.3 million in civil penalties. The \$4.2 million balance includes accounts that may not be collectible. After deducting a \$1.4 million estimate for uncollectible receivables, we estimate that \$2.8 million of this amount should be collectible.

OSM is in substantial compliance with the Debt Collection Improvement Act and has referred 100% of its eligible, uncollected debts to the Department of Treasury for collection.

Civil Monetary Penalty Act

OSM has increased the assessment amounts of civil monetary penalties in accordance with the Act, and is in compliance. The agency issues civil monetary penalties for violations of the Surface Mining Control and Reclamation Act.

As of September 30, 2001 and 2000
(dollars in thousands)

	2001	2000 (Restated)
ASSETS		
With the Federal Government		
Fund Balance with Treasury (Note 2)	\$49,008	\$44,699
Net Investments, Non-Marketable (Note 3)	1,863,582	1,832,171
Accounts Receivable, Net (Note 4)	2	9
Total Federal	1,912,592	1,876,879
With the Public		
Accounts Receivable, Net (Note 5)	25,654	2,118
Interest Receivable (Note 6)	498	375
General Property, Plant and Equipment, Net (Note 7)	2,576	2,891
Total Public	28,728	5,384
TOTAL ASSETS	\$1,941,320	\$1,882,263
LIABILITIES (Note 10)		
With the Federal Government		
Accounts Payable	\$50	\$119
Federal Employee Benefits	490	463
Unfunded Liabilities	679	669
Amounts Held for Others (Note 8A)	790	342
Other (Note 6)	12	22
Total Federal	2,021	1,615
With the Public		
Accounts Payable (Note 20)	54,764	45,310
Federal Employee Benefits	2,405	2,334
Amounts Held for Others (Note 8B)	528	529
Accrued Unfunded Employee Benefits	3,996	4,150
Actuarial Liabilities	4,929	2,485
Estimated Future Liabilities (Note 9)	80,100	120,677
Total Public	146,722	175,485
Total Liabilities	148,743	177,100
NET POSITION (Note 20)		
Unexpended Appropriations (Note 11)	40,319	36,480
Cumulative Results of Operations	1,752,258	1,668,683
Total Net Position	\$1,792,577	\$1,705,163
TOTAL LIABILITIES AND NET POSITION	\$1,941,320	\$1,882,263

The accompanying footnotes are an integral part of these financial statements.

For the years ended September 30, 2001 and 2000
(dollars in thousands)

	2001	2000 (Unaudited)
COSTS		
Operating Costs		
Paid to the Federal Government (Note 12)	\$19,211	\$19,671
Paid to the Public		
Paid to the Public	242,326	264,200
UMWA Combined Benefit Fund Transfers (Note 13)	181,845	108,960
Total Paid to the Public	<u>424,171</u>	<u>373,160</u>
Total Operating Costs	443,382	392,831
Other Costs		
Depreciation and Amortization	572	625
Future Funding Requirements (Notes 14 & 20)	(53,440)	35,640
Net Loss on Disposition of Assets	288	99
Other	<u>4</u>	<u>3</u>
Total Costs	390,806	429,198
LESS EARNED REVENUE		
From the Federal Government (Note 15A)	1,784	1,999
From the Public (Note 15B)	<u>390</u>	<u>61</u>
Total Earned Revenues	2,174	2,060
NET COST OF OPERATIONS (Note 19)	\$388,632	\$427,138

The accompanying footnotes are an integral part of these financial statements.

For the year ended September 30, 2001
(dollars in thousands)

NET COST OF OPERATIONS	\$388,632
FINANCING SOURCES	
Appropriations Used	94,549
Interest Revenue	89,958
Other Non-Exchange Revenue (Note 16)	283,945
Imputed Financing Sources (Note 17)	3,535
Financing Sources Transferred In (Out)	(48)
Fines and Penalties - Public	268
Total Financing Sources	<u>472,207</u>
Net Results of Operations	83,575
Net Change in Cumulative Results of Operations	83,575
Change in Unexpended Appropriations	<u>3,839</u>
Change in Net Position	87,414
NET POSITION-BEGINNING OF YEAR	
Unexpended Appropriations-Beginning of Year	36,480
Cumulative Results of Operations-Beginning of Year	<u>1,668,683</u>
Net Position-Beginning of Year (Note 20)	<u>1,705,163</u>
NET POSITION - END OF YEAR	<u><u>\$1,792,577</u></u>

The accompanying footnotes are an integral part of these financial statements.

For the year ended September 30, 2001
(dollars in thousands)

BUDGETARY RESOURCES

Budget Authority	\$497,877
Unobligated Balances - Beginning of Year	70,158
Spending Authority from Offsetting Collections	2,213
Adjustments	20,942
Total Budgetary Resources Available	<u>\$591,190</u>

STATUS OF BUDGETARY RESOURCES

Obligations Incurred	537,100
Unobligated Balances Available	50,420
Unobligated Balances Not Available (Note 18)	3,670
Total Status of Budgetary Resources	<u>\$591,190</u>

OUTLAYS

Obligations Incurred	537,100
Less: Spending Authority from Offsetting Collections and Adjustments	(25,568)
Obligated Balance, Net - Beginning of Year	277,325
Less: Obligated Balance, Net - End of Year (Note 22)	(351,915)
Total Outlays	<u>\$436,942</u>

The accompanying footnotes are an integral part of these financial statements.

For the year ended September 30, 2001
(dollars in thousands)

OBLIGATIONS AND NONBUDGETARY RESOURCES

Obligations Incurred	\$537,100
Less: Spending Authority from Offsetting Collections and Adjustments	(25,568)
Imputed Financing Sources (Note 17)	3,535
Transfers In (Out)	(48)
Total Obligations as Adjusted and Non Budgetary Resources	<u>515,019</u>

RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS

Change in Amount of Goods, Services, and Benefits	
Ordered but not yet Received	(73,341)
Change in Unfilled Customer Orders	86
Costs Capitalized on the Balance Sheet	(554)
Total Resources That Do Not Fund Net Cost of Operations	<u>(73,809)</u>

COSTS THAT DO NOT REQUIRE OR GENERATE RESOURCES

Depreciation and Amortization	572
Revaluation of Assets and Liabilities	288
Other	2,444
Total Costs That Do Not Require or Generate Resources	<u>3,304</u>

FINANCING SOURCES YET TO BE PROVIDED (55,882)

NET COST OF OPERATIONS \$388,632

The accompanying notes are an integral part of these financial statements.



Summary of Significant Accounting Policies:

A. Reporting Entity

The Office of Surface Mining Reclamation and Enforcement (OSM) was established as a Bureau of the U.S. Department of the Interior by Public Law 95-87, also known as the Surface Mining Control and Reclamation Act of 1977 (SMCRA). SMCRA was passed by Congress on August 3, 1977, and has since undergone several revisions, the most recent being the Energy Policy Act of 1992 (Public Law 102-486). Although SMCRA initially empowered OSM with the authority to collect a statutory coal reclamation fee through FY 1992, a 1992 revision extended this authority through September 30, 2004.

The main purpose of this fee is to fund the reclamation of abandoned mine lands. OSM's mission is further defined by SMCRA to include the administration of programs designed to (1) protect society and the environment from the effects of coal mining operations, (2) reclaim existing and future mined areas which pose both a hazard to public health and safety and affect the quality of the nation's natural resources, and (3) provide technical and financial assistance to states with primary regulatory authority over jurisdictional coal mining activities.

Budget authority of funds appropriated for SMCRA is vested in OSM, which is also responsible for the administrative oversight and policy direction of the program. OSM is required by the U.S. Department of the Treasury (Treasury), the General Accounting Office (GAO), and the Office of Management and Budget (OMB) to report on the accounting of SMCRA funds. The Treasury acts as custodian over all monies appropriated and collected by OSM.

B. Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, the net cost of operations, the changes in net position, the budgetary resources, and the statement of financing of OSM, as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. These financial statements have been prepared from the books and records of OSM in accordance with accounting principals generally accepted in the United States of America using guidance issued by the Federal Accounting Standards Advisory Board (FASAB), the Office of Management and Budget (OMB) and OSM's accounting policies, which are summarized in this note. These financial statements present proprietary and budgetary information while other financial reports also prepared by OSM pursuant to OMB directives are used to monitor and control OSM's use of budgetary resources.

These are the financial statements of a component of the United States Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides the resources and the legal authority to do so.

The accounting structure of OSM is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned, and expenses are recognized when incurred, without regard to receipt or payment of cash. The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds.

The accounting principles and standards applied in preparing the financial statements and described in this note are in accordance with the following hierarchy of accounting principles:

- FASAB Statements entitled Statements of Federal Financial Accounting Standards (SFFAS). These statements reflect the accounting principles, standards, and requirements recommended by the FASAB and approved by the General Accounting Office (GAO), OMB and Treasury. Additionally, FASAB Interpretations provide further clarification to the approved standards.
- Form and content requirements for financial statements, as presented in OMB Bulletin No. 01-09 (Form and Content of Agency Financial Statements). Note that the provisions of published SFFAS and interpretations take precedence over OMB Form and Content Guidance.
- Other Authoritative Guidance; If questions arise regarding issues that are not addressed by SFFAS or OMB Form and Content guidance, the agency looks to authoritative guidance issued by other standard setting bodies, such as the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).
- The accounting principles and standards contained in departmental and bureau accounting policy and procedures manuals, and/or related guidance.
- Statements of Federal Financial Accounting Concepts (SFFAC). These concepts are not authoritative, per se, and do not have required implementation dates. However, they do contain very useful guidance regarding the completeness of the reporting entity and the presentation of financial information.

C. Responsibility

1. Fund Accounting

OSM is responsible for financial reporting by category of source or use, otherwise known as funds. For this purpose, OSM has consolidated accounting data into three types:

Regulation and Technology - These funds consist of expenditure accounts used to record financial transactions arising from congressional appropriations to spend general revenue. This category supports the financing of state regulatory grants, oversight of state regulatory programs, research and development facilitating the transfer of reclamation expertise to states, and the partial financing of all OSM operations and maintenance costs. Funding is appropriated on an annual basis.

Reclamation Programs - Funds for these programs come from revenues collected from fees (AML Fund) and civil penalty assessments and are used for the purpose of reclamation projects.

- **AML Funds** - These funds were established by SMCRA for the deposit of coal reclamation fees, related late payment interest, and administrative charges recovered in pursuing collections. Available reclamation fees are used solely to finance the Abandoned Mine Lands (AML) Reclamation program. However, before AML funds can be used, a Congressional appropriation is necessary to authorize yearly spending limits.
- **Civil Penalty Funds** - Penalties are assessed for violations and are used to reclaim mining sites.
- **Bond Forfeiture Funds** - Companies sometime forfeit bonds and the money is used to reclaim the mine site.

- Investment Fund - Available Special Fund balances, in excess of current cash requirements, are regularly invested in non-marketable federal securities as authorized under Public Law 101-508.

Other - These are temporary holding accounts for resources pending distribution. These are allocated between the regulation and reclamation funds.

- Deposit Funds - These funds account for receipts awaiting proper classification, amounts held in escrow, and proceeds from the sale of vehicles.
- Receipt Funds - The Office of Surface Mining's financial statements include: (1) miscellaneous judicial service fees, (2) fines, (3) administrative fees, (4) miscellaneous receipts, (5) interest, and (6) unclaimed monies which are credited annually to the Treasury's general government fund. In the billing and collection of these funds, OSM is merely acting as a collection agent for the Treasury.

2. Government Performance and Results Act (GPRA) Program Activities

Beginning in FY 1998, OSM is responsible for reporting costs by GPRA program activity. OSM's GPRA program activities are:

- Environmental Restoration - This program is responsible for the reclamation of abandoned mine land affected by mining that took place before the Surface Mining Law was passed in 1977. It includes grants to States and Indian Tribes, emergency projects, the Appalachian Clean Streams Initiatives, financial management of Abandoned Mine Land fees and investments, as well as funding of related OSM activities.
- Environmental Protection - This program is responsible for ensuring that the Surface Mining Law's goals are achieved, primarily through the States and Indian Tribes. It includes OSM rule making, grants to States and Indian Tribes to conduct and develop their regulatory programs, OSM regulatory operations in non-primacy states, and OSM state program evaluations and oversight.
- United Mine Workers of America Combined Benefit Fund Transfer – This program is for the transfer of funds to the United Mine Workers of America Combined Benefit Fund. This is an annual transfer required by the Energy Policy Act of 1992. The transfer is used to pay for health care benefits for certain coal miners and their beneficiaries.

D. Revenues and Financing Sources

1. Realized Operating Revenue

- Appropriations - The United States Constitution prescribes that funds must be made available by Congressional appropriation before they may be expended by a Federal agency.
- Other Revenue - Additional funds are obtained through various sources including reimbursements for services performed for other Federal agencies and the public as well as fees and miscellaneous receipts derived from other OSM programs.

2. Assessments

- The Bond Forfeiture Fund receives operating authority based on revenue provided from forfeited performance bonds. Regulations require that proceeds from this fund be used to reclaim lands that are specific to the forfeited bond.
- The Civil Penalty Fund collects revenue from assessments levied against permittees who violate any permit condition or any other provision of Title 30 U.S.C. 1268. Regulations require that proceeds from this fund be used to reclaim lands adversely affected by coal mining practices on or after August 3, 1977.

3. Abandoned Mine Land Fees (AML)

The Abandoned Mine Land (AML) program is funded by a reclamation fee assessed on coal mine operators. The fee is based on the type and volume of coal produced for sale, transfer, or use. As appropriated by Congress, monies received and deposited in this special fund are used to reclaim lands adversely affected by past mining.

Since the inception of SMCRA, the Act requires that half of the AML reclamation fees be set aside for the state of origin. The remaining collections - half of the AML and all interest, late-payment penalties, and administrative charges - are set aside without regard to the state from which the fees were collected. Annually, Congress provides grant monies in the OSM appropriation, typically much less than the annual collections, which are distributed to those states and tribes that have a state or tribal run AML program. Fees collected, but not yet appropriated, are held in trust for future appropriations.

4. Interest Earnings

Beginning in FY 1996, OSM has annually transferred a portion of the interest it has earned through investment of the AML Funds unexpended balance to the United Mine Workers of America Combined Benefit Fund. See Notes 1K, 3, and 13 for additional information.

5. Transfers In/Transfers Out

The Office of Surface Mining also administers and accounts for financial activity affecting no-year funds that, in earlier years, had been transferred to OSM from the U.S. Department of State (India Fund). The purpose of the India transfer was to fund research and development of India's reclamation program within the framework of SMCRA.

E. Centralized Federal Financing Activities

OSM's financial activities interact with and are dependent on the financial activities of the centralized management functions of the federal government that are undertaken for the benefit of the government as a whole. These activities include public debt and employee retirement and post-employment benefit programs. Employee retirement and post-employment benefit costs, along with an imputed financing source for these costs, are included in OSM's financial statements. Please see Note 17 for the breakdown of these assigned costs. Public debt activities that are performed for the benefit of the government as a whole are not included in these financial statements.

F. Allowance for Doubtful Accounts

OSM uses two different methodologies to recognize bad debts arising from uncollectible accounts receivable, the net of the allowance method and the specific analysis method. The net of the allowance

method is used for special and civil penalty funds accounts receivable. Under this method, an allowance for doubtful accounts is calculated based upon OSM's past experience in successfully collecting delinquent accounts receivable by aging category. OSM's allowance methodology is representative of the collectability of delinquent accounts. For all other types, the allowance is based on an analysis of each account receivable.

G. Grant Expenditures

OSM awards grants to states and Indian tribes to facilitate the accomplishment of its overall mission. To meet immediate cash needs, grantees draw down funds that are disbursed through an automated payment system. OSM accrues these draw-downs as expenditures because they are either reimbursements or the state or tribe immediately disburses the money for its program. All OSM disbursements are made by the Treasury. Either semiannually or annually, grantees report costs incurred to OSM.

H. Administrative Expenses

Executive and general administrative expenses incurred by OSM benefit both the Regulation and Technology and AML funds. Both funds receive an equitable reallocation of indirect costs through a budget-based formula.

I. Distribution of AML Appropriation for Reclamation Grants

OSM distributes the Congressional appropriation from the collections of AML fees through grants to states and tribes. The distribution contains three main components: 1) state share distribution 2) federal share distribution 3) emergency program distribution. The state-share portion is based on the percentage of each state's balance in the AML Trust Fund. All states or tribes with a participating state or tribal reclamation program receive state share distributions on an annual basis if they have a balance in the trust fund. OSM distributes additional monies from the federal-share portion of the AML appropriation based upon state historical coal production prior to 1978. Under the minimum program provision, OSM distributes at least \$1.6 million to states or tribes with qualifying reclamation projects. This provides additional funding for Priority 1 and Priority 2 AML coal projects. OSM also distributes monies to be used only for qualifying emergency programs from the federal-share portion of the appropriation.

J. Fund Balance with Treasury

OSM maintains all cash accounts with the Treasury. The account "Fund Balance with Treasury" represents appropriated and special fund balances, both available and unavailable. Cash receipts and disbursements are processed by Treasury. OSM reconciles its records with those of the Treasury on a monthly basis. Note 2 provides additional information on Fund Balances with Treasury.

K. Investments

OSM invests excess cash from AML fee collections in Treasury bills and certificates. Note 3 provides additional information concerning investments. Some of these investment earnings are transferred to the United Mine Workers of America Combined Benefit Fund. See Note 13 for additional information.

L. Personnel Compensation and Benefits

Annual leave is accrued as it is earned by employees. The accrual is reduced as leave is taken. Each year, the balance of accrued annual leave is adjusted to reflect current pay rates. Appropriations do not provide for leave as it is earned, only as it is used. Consequently, OSM has a liability for unused annual leave which is considered unfunded. Sick leave and other types of non-vested leave are expensed as used.

Office of Workers Compensation Program chargeback and unemployment compensation insurance are funded from current appropriations when paid. An unfunded liability is recognized for benefits received by employees, but not yet paid by OSM.

OSM employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS, which became effective on January 1, 1984). Most OSM employees hired after December 31, 1983 are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS.

OSM employees contribute seven percent of their gross pay to CSRS. OSM makes matching contributions to CSRS on behalf of CSRS employees. Employees covered by CSRS are not subject to Social Security taxes, nor are they entitled to accrue Social Security benefits for wages subject to CSRS. CSRS employees, however, do contribute to Medicare. FERS employees are subject to social security and Medicare taxes. OSM also contributes an amount equal to one percent of the employee's basic pay to the tax deferred thrift savings plan and matches employee contributions up to an additional four percent of pay for FERS employees. FERS employees can contribute up to eleven percent of their gross earnings to the plan. CSRS employees have the option of contributing to the thrift savings plan up to six percent of their gross salary with no additional government matching.

These financial statements also reflect CSRS or FERS accumulated plan benefits and unfunded retirement liabilities, if any. These figures are calculated and provided to OSM by the Office of Personnel Management. Note 17 provides for a further breakdown of these retirement and post-employment benefit costs.

M. Income Taxes

As an agency of the U.S. Government, OSM is exempt from all income taxes imposed by any governing body, whether it be a federal, state, Commonwealth of the United States, local, or foreign government.



Fund Balance with Treasury:

The Treasury performs cash management activities for all government agencies. The Fund Balance with Treasury represents the right of OSM to draw on the Treasury for allowable expenditures. The Fund Balance with Treasury represents OSM's unexpended, uninvested account balances. All funds reported on these statements are entity funds. Restricted amounts represent the AML fees collected but not yet made available for spending by Congress.

(Dollars in thousands)	2001	2000
Available:		
General Fund Appropriations	\$45,702	\$41,533
Special Fund Appropriations	360,303	305,949
Restricted:		
AML Fund	1,505,267	1,528,517
Other	1,318	871
Subtotal Fund Balance	\$1,912,590	\$1,876,870
Less Invested Balance (See Note 3)	(1,863,582)	(1,832,171)
Total Fund Balance	\$49,008	\$44,699

Note
3

Net Investments, Non-Marketable:

Effective October 1, 1991, OSM was given authority to invest the balance of the AML Special Fund in non-marketable federal securities under Public Law 101-508. The Bureau of Public Debt is the sole issuer of authorized non-marketable Federal securities, which are purchased by OSM directly from the Treasury. OSM may invest in bills, notes, bonds, par value special issues, and one-day certificates. There are no restrictions on federal agencies as to the use or convertibility of Treasury non-marketable securities. OSM uses the straight-line method for amortizations as opposed to the effective interest method, which is required by generally accepted accounting principles, however the effect of using the straight-line method is not significantly different from that of the effective interest method.

When previously issued Treasury bills are purchased by OSM, the unamortized (discount) or premium is calculated by the Treasury at the time of purchase. The unamortized discount represents the value of the discount carried until a security is redeemed or matures. Investments are entered at the fair value, with the discount accrued as amortization of premiums or discounts.

(Dollars in thousands)	2001	2000
Face Value	\$1,866,451	\$1,847,088
Unamortized Discount	(9,908)	(35,689)
Amortization on Premiums or Discounts	6,845	20,772
Interest Receivable	194	0
Net Investments	\$1,863,582	\$1,832,171

Note
4

Accounts Receivable with the Federal Government:

(Dollars in thousands)	2001	2000
BIA – Department of the Interior	\$0	\$6
Corps of Engineers	2	3
Net Receivables with the Government	\$2	\$9

There is no Allowance for Uncollectible Accounts recorded for receivables with other government agencies because such amounts are deemed fully collectible.


Accounts Receivable with the Public:

(Dollars in thousands)	Gross A/R	Allowance for Uncollectible Accounts				2001 Net A/R	2000 Net A/R
		Beginning Balance	Additions	Reductions/ Collections	Ending Balance		
Total Accounts Receivable	\$26,428	\$2,101	\$600	(\$1,927)	\$774	\$25,654	\$2,118

Accounts receivable with the public are recorded net of the allowance for uncollectible (doubtful) accounts. These receivables represent uncollected Abandoned Mine Land, civil penalty, audit fees, and other receivables. The accounts receivable balance at September 30, 2001 includes a refund receivable due from the United Mine Workers Combined Benefit Fund in the amount of \$23,328,000 which was accrued during FY 2001 and was deemed to be 100 percent collectible.


Interest Receivable from the Public:

(Dollars in thousands)	Gross Interest Receivable	Allowance for Uncollectible Accounts				2001 Net I/R	2000 Net I/R
		Beginning Balance	Additions	Reductions/ Collections	Ending Balance		
Non-Entity	\$31	\$118	\$77	(\$176)	\$19	\$12	\$22
Entity	\$1,065	\$945	\$367	(\$733)	\$579	\$486	\$353
Total Interest Receivables	\$1,096	\$1,063	\$444	(\$909)	\$598	\$498	\$375

Non-entity receivables represent receivables which OSM has no statutory authority to retain. These are OSM's only non-entity assets. The collections on these receivables are transferred annually to Treasury. An intra-governmental payable is established at the same time the receivable is established.


General Property, Plant and Equipment, Net:

OSM does not own any real estate or buildings. All property and equipment are valued at historical cost. Property and equipment are capitalized whenever the initial acquisition cost is \$15 thousand or greater and the estimated useful life is two years or longer. Computer software is not capitalized unless the acquisition cost is \$25 thousand or more.

All property and equipment is depreciated using the straight-line method and the asset's useful life and is determined using OMB guidance.

(Dollars in thousands)	Service Life (Years)	Acquisition Value	Accumulated Depreciation	2001 Net Book Value	2000 Net Book Value
ADP Equipment	15	\$2,066	(\$1,506)	\$560	\$952
Office Equipment	11-20	898	(232)	666	697
Vehicles	6-10	2,758	(1,408)	1,350	1,242
Total Physical Assets		\$5,722	(\$3,146)	\$2,576	\$2,891

Note
8

Amounts Held for Others:

Deposits received by OSM are held in suspense pending legal action, identification, or other further action. These deposits have been identified as (1) Reimbursable advances - receipts from recipients of services yet to be performed; (2) Other escrows - permit fees held by OSM until the permit is issued; (3) Civil Penalties Escrow - funds collected from civil penalties held in escrow pending any appeal processes which will determine whether OSM will refund the collections or transfer the collections to appropriate accounts for use by the Federal Government; (4) Bonds - cash held by OSM until the coal operator has fully reclaimed the specific bonded site; (5) Other - misapplied deposits pending correction and deposits not applied due to timing, also pending correction and; (6) Overpayments - excess AML fee payments due to be refunded or returned to Treasury.

8A. Amount held for Others with the Federal Government
(Dollars in thousands)

	2001	2000
Reimbursable Advance	\$790	\$294
Other Deposits	0	48
Totals	\$790	\$342

8B. Amount Held for Others with the Public
(Dollars in thousands)

	2001	2000
Reimbursable Advance	\$105	\$303
Other Escrows	65	76
Civil Penalties Escrow	68	49
Bonds	50	10
Other Deposits	232	83
Overpayments	8	8
Totals	\$528	\$529

Note
9

Estimated Future Liabilities:

A. Environmental Liabilities

The Congress has identified the reclamation of abandoned mine sites as an objective of providing for the general health and safety of the people. In order to finance the reclamation, OSM collects a fee for coal sold or used from current mining operations into a fund called the Abandoned Mine Land Fund. The purpose of this fee is to support, among other things, the reclamation of abandoned mine lands. Congress authorizes the funding for these projects on an annual basis through appropriations from this fund.

Although OSM's mission includes the administration of programs designed to protect society from the effects of coal mining operations, OSM has no liability for future environmental cleanup. OSM does not own land or contribute to environmental contamination. However, OSM provides some funding, through grants for states and tribes and through contracting in states or tribal lands that do not have approved abandoned mine land programs, in order to reclaim eligible abandoned mine sites or to work on other qualified projects. All costs associated with these projects are accrued in the accompanying financial statements as the grantee incurs them.

B. Contingent Liabilities

There have been claims filed against OSM with adjudications pending. As of September 30, 2001 a liability of \$80,100,000 has been accrued in the financial statements for cases in which payment has been deemed probable and for which the amount of potential liability is estimable. Cash settlements of \$80,000,000 are expected to be paid out of the Judgment Fund maintained by Treasury, and settlements of \$100,000 from operating resources of OSM. The related liability at September 30, 2000 was \$120,677,488.

All accrued contingent liabilities are reflected as non-current, as they are not expected to be paid in the next twelve months. No amounts have been accrued in the financial records for claims where the amount or probability of judgment is uncertain. Sufficient information is not currently available to determine if the ultimate resolution of these proceedings, actions, and claims will materially affect OSM's financial position or results of operations.

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Liabilities:

(Dollars in thousands)

	Covered by Budgetary Resources	Not Covered by Budgetary Resources	2001 Total	2000 Total (Restated)
Accounts Payable-Federal	\$50		\$50	\$119
Unfunded Liabilities		\$679	679	463
Federal Employee Benefits	490		490	669
Amount Held for Others (Note 8A)	790		790	342
Other	12		12	22
Total Liabilities with the Federal Government	<u>\$1,342</u>	<u>\$679</u>	<u>\$2,021</u>	<u>\$1,615</u>
Accounts Payable-Public	\$54,764		\$54,764	\$45,310
Federal Employee Benefits	2,405		2,405	2,334
Amounts Held for Others (Note 8B)	528		528	529
Accrued Unfunded Employee Benefits		\$3,996	3,996	4,150
Actuarial Liabilities		4,929	4,929	2,485
Estimated Future Liabilities (Note 9)		80,100	80,100	120,677
Total Liabilities with the Public	<u>\$57,697</u>	<u>\$89,025</u>	<u>\$146,722</u>	<u>\$175,485</u>
Total Liabilities	<u>\$59,039</u>	<u>\$80,704</u>	<u>\$148,743</u>	<u>\$177,100</u>

Liabilities covered by budgetary resources are liabilities to be paid with existing appropriation authority. Liabilities not covered by budgetary authority represent those liabilities for which Congressional action is needed before budgetary resources can be provided.

11

Unexpended Appropriations:

(Dollars in thousands)

	2001	2000 (Restated)
Unobligated and Available	\$212	\$9,952
Unobligated and Unavailable	3,670	4,696
Obligated	36,437	21,832
Total Unexpended Appropriations	<u>\$40,319</u>	<u>\$36,480</u>

Unexpended appropriations consist of unobligated funds, unavailable authority and obligated funds. Unobligated funds, depending on budget authority, are generally available for new obligations associated with current operations. Unavailable authority includes amounts appropriated in prior fiscal years, which may not be used for current operations. Obligated funds represent amounts designated for payment of goods and services ordered but not received.

**Costs Paid to Federal Agencies:**

(Dollars in thousands)	2001	2000 (Unaudited)
U.S. Department of the Interior:		
Bureau of Reclamation	\$25	\$21
Bureau of Land Management	76	4
Minerals Management Service	2	57
National Park Service	1	3
Office of the Secretary	2,607	3,257
Fish and Wildlife Service	0	6
Geological Survey	56	5
Total Department of Interior	<u>\$2,767</u>	<u>\$3,353</u>
Other Federal Agencies:		
Office of Personnel Management	\$5,823	\$5,878
Department of Labor	348	258
Department of Agriculture	604	714
General Services Administration	4,054	3,577
U.S. Postal Service	28	37
U.S. Treasury	1,533	1,567
Government Printing Office	287	333
Department of State	163	179
Other	69	114
Total Other Federal Agencies	<u>\$12,909</u>	<u>\$12,657</u>
Other – Imputed Costs	<u>3,535</u>	<u>3,661</u>
Total Costs Paid to Federal Agencies	<u>\$19,211</u>	<u>\$19,671</u>

Costs paid to Federal Agencies represent expenditures made to other Bureaus within the Department of the Interior and to other Federal entities. The Office of Surface Mining does not incur costs with itself.

**UMWA-CBF Transfers:**

Presently, all earnings from AML investments are reinvested, thus providing a source of additional funding to enhance AML Special Fund equity. However, with the enactment of Public Law 102-486 on October 24, 1992, and effective with FY 1996, OSM is required to transfer annually a portion of the interest earned from the AML Special Fund to the United Mine Workers of America Combined Benefit Fund (UMWA-CBF). These AML interest proceeds are made available to provide health benefits for certain eligible coal miners and their dependents. Payments are made in advance and are an estimate based on the number of beneficiaries. The number of beneficiaries can change from year to year based on court cases, bankruptcies, and mortality. Also on October 11, 2000, the Department of the Interior and Related Agencies Appropriations Act, 2001 Public Law 106-291, provided for additional funding to offset any net asset deficit as estimated by the trustees of the fund through August 31, 2001. The source of the additional funding was the amount of interest earned during fiscal years 1992 through 1995, inclusive, that had not been transferred to the UMWA-CBF. With Public Law 106-113, Congress authorized a similar payment in the amount of \$68 million during FY 2000. The net amount of this transfer in FY 2001 is \$78.9 million.

The financial statements include accrued accounts payable to the UMWA-CBF in the amount of \$43,606,000 and \$35,441,000 for FY 2001 and 2000, respectively. These amounts reflect future payments that are adjustments to actual costs of previous years estimated costs. Additionally, OSM recognizes a corresponding future funding expense for these payables as these costs are funded with the subsequent years appropriations. Notes 14 and 20 illustrate the effect of these payables on the financial statements.

(Dollars in thousands)	2001 Payment	2000 Payment (Unaudited)
Total Number of Beneficiaries	17,411	16,972
Special payments identified in Public Law	\$78,902	\$68,000
FY 2001 Costs	67,503	0
FY 2000 Costs	5,231	42,482
FY 1999 Costs	18,647	(2,708)
FY 1998 Costs	3,896	7,961
FY 1997 Costs	4,253	(4,240)
FY 1996 Costs	3,413	(2,535)
Total Payment	\$181,845	\$108,960

Note 14

Future Funding Requirements:

The Department of the Interior has provided OSM with its unfunded future liability for workers compensation benefits covered by the Federal Employees Compensation Act (FECA) and the Departmental Payroll operation has provided data for accrued unfunded leave. Amounts reflected as changes in contingent legal liabilities result from legal determinations of future payment probability. OSM accrues expenses for future UMWA-CBF payments that are adjustments to previous estimated payments.

(Dollars in thousands)	2001	2000 (Unaudited)
Accrued Unfunded Leave	\$(153)	\$249
FECA Accrual	10	40
Changes in FECA Actuarial	2,443	(118)
Changes in Contingent Legal Liabilities	(40,577)	28
Account Receivable due from UMWA-CBF	(23,328)	0
Changes in Accounts Payable due to UMWA-CBF	8,165	35,441
Total Future Funding Requirements	\$(53,440)	\$35,640

Note 15

Earned Revenue:

There are some types of receipts (e.g., reimbursable agreements with states and other federal agencies) that are recognized as revenues when earned. These revenues may be used to offset the cost of producing the product or providing the service for which they are received.

(Dollars in thousands)	2001	2000 (Unaudited)
15A. Total Revenue from Federal Government		
Bureau of Indian Affairs	\$783	\$992
Bureau of Land Management	4	71
Minerals Management Service	36	130
Office of the Secretary - DOI	11	8
Environmental Protection Agency	46	48
Department of Energy	37	17
Department of State	757	623
Office of Solicitor	5	4
Corps of Engineers	33	11
USDA-Forest Service	57	25
National Endowment for the Arts	15	20
Vehicle Sales	0	50
Total Revenue from Federal Government	\$1,784	\$1,999
15B. Total Revenue from the Public		
Bond Forfeitures	\$172	\$3
Indonesia	14	33
Copy Fees	2	2
Blaster Fees	3	2
Permit Fees	44	13
Mine Map Sales & FOIA	7	8
Vehicle Sales	148	0
Total Revenue from Public	\$390	\$61
Total Earned Revenue	\$2,174	\$2,060


Other Non-Exchange Revenue:

Accrual-based accounting includes both collected and uncollected revenue as a financing source:

(Dollars in thousands)	<u>2001</u>
Revenue from AML fees and Civil Penalties	<u>\$283,945</u>


Imputed Financing Sources

The following table details the expenses incurred for retirement and post-employment benefits.

Assigned Retirement and Post-Employment Benefits Cost (Dollars in thousands)	Base Salary of Eligible Employees	OSM Percentage of Cost	2001 Assigned Cost
Civil Service Retirement System Pensions	\$18,796	8.69%	\$1,634
Civil Service Retirement System Offset Pensions	2,076	9.99%	207
Retirement Life Insurance	24,859	0.02%	5
Retirement Health Benefits	563.25 employees (yearly average) multiplied by \$2,999 per employee		1,689
Total Assigned Benefits Cost			<u>\$3,535</u>

Please see Note 1L for further explanation of the Civil Service Retirement System.


Unobligated Balances Not Available:

To properly report the financial position of the bureau, these financial statements include expired appropriated accounts, which are unavailable for new obligations. These unavailable funds are canceled and returned to the Treasury five years after the appropriation was authorized. The current balance of unavailable (or expired) appropriations is approximately \$3.7 million.


Net Cost of Operations by Segment:

During the year ended September 30, 2001, OSM revised the presentation of the Consolidated Statement of Net Cost of Operations and related disclosures to present gross costs, earned revenues, and net costs by program and responsibility segment. OSM's presentation is consistent with the strategic goals included in the strategic plan and in accordance with the Government Performance and Results Act.

OSM restated the Consolidated Statement of Net Costs of Operations and related disclosures for the year ended September 30, 2000 to conform with the current year presentation. The restated Consolidated Statement of Net Cost of Operations and disclosures for the year ended September 30, 2000 have not been audited.

Supporting Schedule by Responsibility Segment

For the years ended September 30, 2001 and 2000
(dollars in thousands)

	Environmental Restoration	Environmental Protection	UMWA CBF Transfer	2001 Total	2000 Total (Unaudited)
Office of Surface Mining Operations:					
Total Expenses	\$32,963	\$11,034		\$43,997	\$77,630
Revenues	538	1,636		2,174	2,060
Net Cost	32,425	9,398		41,823	75,570
Grants to States and Tribes:					
Total Expenses	129,436	50,691		180,127	207,167
Revenues	0	0		0	0
Net Cost	129,436	50,691		180,127	207,167
Authorized Special Payments:					
Total Expenses			\$166,682	166,682	144,401
Revenues			0	0	0
Net Cost			166,682	166,682	144,401
Net Cost of Operations	\$161,861	\$60,089	\$166,682	\$388,632	\$427,138

See independent auditor's report

**Restatements:**

During 2001, OSM became aware of certain payments including \$35,441,000 due to the UMWA-CBF and \$7,428,000 due to states and tribes for grants that should have been accrued in the financial statements in 2000. Accounts payable with the public, net position, future funding requirements and net cost of operations 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. Additionally, OSM posted a reclassification to components of net position for \$8,000 related to certain revenue postings.

(Dollars in thousands)

Net Position - September 30, 2000, as Previously Reported			\$1,748,032
Cumulative Results of Operations, as Previously Reported			1,709,594
Adjustments:			
Payment Accruals	(40,903)		
Reclass to Unexpended Appropriations	(8)		
Sub-Total		(40,911)	
Cumulative Results of Operations, as restated			1,668,683
Unexpended Appropriations, as Previously Reported			38,438
Adjustments:			
Payment Accruals	(1,966)		
Reclass from Cumulative Results of Operations	8		
Sub-Total		(1,958)	
Unexpended Appropriations, as restated			36,480
Net Position - September 30, 2000, as restated			<u>\$1,705,163</u>


Operating Leases:

OSM's facilities are rented from the General Services Administration (GSA), which charges rent that is intended to approximate commercial rental rates. For Federally-owned property, OSM generally does not execute an agreement with GSA nor is there a formal expiration date. However, OSM is normally required to give 120 to 180 days notice to vacate the property and the amount of these leases remains fairly constant from year to year. These leases are included in the estimated future lease payments for FY 2002 through FY 2006 and beyond below. The FY 2002 amount for these leases is \$602 thousand. For non-Federally owned property, an occupancy agreement is executed, and again OSM may normally cancel these agreements with 120 days notice. The estimated rent payments to GSA for both Federally-owned and publicly-owned buildings are presented in the table that follows. OSM does not have any capital or non-GSA equipment or other property leases. OSM rental expenses for 2001 and 2000 were \$3,833 and \$4,478 thousand, respectively.

(Dollars in thousands)	
Fiscal Year	GSA Real Property
2002	\$2,538
2003	2,336
2004	2,281
2005	1,107
2006	1,057
After 5 Years	3,796
Total Future Lease Payments	<u>\$13,115</u>


Obligated Balance, Net - End of Year:

OSM's net obligated balance at the end of 2001 is comprised of accounts receivable (with the Federal Government), unfilled customer orders without advance (related to reimbursable agreements), undelivered orders for goods and services ordered but not yet received, and accounts payable.

(Dollars in thousands)	
	2001
Accounts Receivable	\$2
Unfilled Customer Orders	481
Undelivered Orders	(345,728)
Accounts Payable	(6,670)
Obligated Balance, Net-End of Year	<u>\$(351,915)</u>

Supplementary Statement of Budgetary Resources by Major Budget Accounts

For the year ended September 30, 2001
(dollars in thousands)

	Regulation and Technology	AML and Civil Penalties	Total
BUDGETARY RESOURCES			
Budget Authority	\$100,801	\$397,076	\$497,877
Unobligated Balances - Beginning of Year	15,764	54,394	70,158
Spending Authority from Offsetting Collections	1,800	413	2,213
Adjustments	(393)	21,335	20,942
Total Budgetary Resources Available	\$117,972	\$473,218	\$591,190
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred	112,925	424,175	537,100
Unobligated Balances Available	1,377	49,043	50,420
Unobligated Balances Not Available	3,670	0	3,670
Total Status of Budgetary Resources	\$117,972	\$473,218	\$591,190
OUTLAYS			
Obligations Incurred	112,925	424,175	537,100
Less: Spending Authority from Offsetting Collections and Adjustments	(3,820)	(21,748)	(25,568)
Obligated Balance, Net - Beginning of Year	26,614	250,711	277,325
Less: Obligated Balance, Net - End of Year	(41,623)	(310,292)	(351,915)
Total Outlays	\$94,096	\$342,846	\$436,942

See accompanying independent auditors' report

C-IN-OSM-0044-2001



United States Department of the Interior

Office of Inspector General
Washington, D.C. 20240

Memorandum

To: Director, Office of Surface Mining Reclamation and Enforcement

From: Roger La Rouche
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)



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.



KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is
a member of KPMG International, a Swiss association.

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

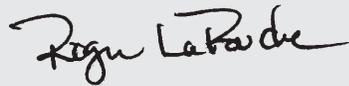
We have audited the Office of Surface Mining Reclamation and Enforcement's (OSM) consolidated balance sheet and related notes as of September 30, 2000. The objective of our audit was to express an opinion on the fair presentation of the consolidated balance sheet. This financial statement is the responsibility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



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