CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF SEPTEMBER 30, 1999

(dollars in thousands)

	1999	1998 Restated
Assets		
OSM Assets:		
Fund Balance with Treasury (Note 2)	$40,479	$44,178
Investments (Note 3)	1,751,965	1,661,304
Accounts Receivable Due from Federal Agencies (Note 4A)	34	31
Accounts Receivable Due from the Public, Net (Note 4B)	958	1,894
Interest Receivable Due from the Public, Net (Note 4B)	365	749
Advances and Prepayments	0	60
Physical Assets (Note 5)	3,031	5,557
Total OSM Assets	$1,796,832	$1,713,773
Assets Held on Behalf of Others		
Interest Receivable Due from the Public, Net (Note 4C)	$21	$43
Total Assets Held on Behalf of Others	$21	$43
Total Assets	$1,796,853	$1,713,816
Liabilities		
Liabilities Covered By Budgetary Resources:		
Accounts Payable to Federal Agencies	$168	$354
Accounts Payable to the Public	5,407	4,764
Accrued Payroll and Benefits to the Public	2,523	2,242
Total Liabilities Covered by Budgetary Resources	$8,098	$7,360
Liabilities Not Covered by Budgetary Resources:		
Unfunded Liabilities Payable to Federal Agencies	$21	$64
Unfunded Payroll Costs Payable to the Public	4,530	4,478
Amounts Held for Others (Note 6)	883	1,999
Other Liabilities (Note 7)	$123,252	$112,259
Total Liabilities Not Covered by Budgetary Resources	$128,686	$118,800
Total Liabilities	$136,784	$126,160
Net position		
Unexpended Appropriations (Note 8)	$322,139	$320,727
Cumulative Results of Operations (Note 9)	1,337,930	1,266,929
Total Net Position	$1,660,069	$1,587,656
Total Liabilities and Net Position	$1,796,853	$1,713,816

The accompanying footnotes are an integral part of these statements.

CONSOLIDATED STATEMENT OF NET COST

FOR THE YEAR ENDED SEPTEMBER 30, 1999 (dollars in thousands)	1999	1998
Costs		
Total Costs		
Paid to Federal Agencies (Note 10)	$13,047	$13,029
Paid to the Public	263,858	286,199
Total Program Costs	$276,905	$299,228
Less Earned Revenue		
From Federal Agencies	$2,142	$1,488
From the Public	937	1,790
Total Program Earned Revenue (Note 11)	$3,079	$3,278
Net Program Costs	$273,826	$295,950
Costs not allocated to programs		
Future Funding Requirements (Note 12)	$11,047	$20,457
UMWA Combined Benefit Fund Transfer (Note 13)	81,766	32,562
Miscellaneous Bad Debt Expense	174	1,714
Total Unallocated Costs	$92,987	$54,733
Less Other Earned Revenue	263	$288
Net Unallocated Costs	$92,724	$54,445
Net cost of operations	$366,550	$350,395

The accompanying footnotes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

FOR THE YEAR ENDED SEPTEMBER 30, 1999

(dollars in thousands)

	1999	1998 Restated
Net Cost of Operations	$366,550	$350,395
Subtracted from Financing Sources:		
Appropriations Used	$353,943	$324,875
AML Interest, Non-Federal	98	370
Investment Interest Earned, Federal	76,073	82,729
Revenue from Fees Assessed	276,030	278,392
Other Revenues and Financing Sources (Note 14)	73	(546)
Imputed Financing Sources (Note 15)	4,153	4,036
Appropriated Revenues (Note 20)	(99)	(0)
Financing Sources Transferred-In/Out	(330)	1,364
Net Results of Operations	$343,391	$340,825
Invested Capital - Adjustments and Other Changes (Note 16)	(49)	(377)
Prior Period Adjustments (Note 17)	(4,843)	(7,168)
Net Change in Cumulative Results of Operations	$338,499	$333,280
Change in Unexpended Appropriations (Note 20)	(266,086)	(235,252)
Change in Net Position	$72,413	$98,028
Net Position-Beginning of Period	1,587,656	1,489,628
Net Position-End of Period (Note 8 & 9)	$1,660,069	$1,587,656

Net Results of Operations represents the balance of Financing Sources greater than the Net Cost of Operations.
The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF BUDGETARY RESOURCES

FOR THE YEAR ENDED SEPTEMBER 30, 1999

(dollars in thousands)

	1999	1998
Budgetary Resources Made Available:		
Budget authority	$360,314	$305,267
Appropriations available for investment but not obligation (Note 18)	1,443,912	1,351,565
Unobligated balances available: Beginning of Period (includes expired)	54,522	60,707
Reimbursements and Other Income	2,098	4,052
Adjustments	17,583	43,914
Total Budgetary Resources made Available	$1,878,429	$1,765,505
Status of Budgetary Resources:		
Obligations incurred, gross	$373,215	$359,419
Unobligated balances available - end of period (Note 8)	53,736	43,840
Available for investments/not obligations (Note 18)	1,443,912	1,351,565
Unobligated balances not available - end of period (Note 19)	7,566	10,681
Total Status of Budgetary Resources	$1,878,429	$1,765,505
Outlays:		
Obligations incurred, Net	$348,234	$306,078
Obligated balance-beginning of period	273,514	293,270
Less: Obligated balance-end of period	268,889	273,514
Total Outlays	$352,859	$325,834

The accompanying footnotes are an integral part of these statements.

CONSOLIDATED STATEMENT OF FINANCING

FOR THE YEAR ENDED SEPTEMBER 30, 1999

(dollars in thousands)

	1999	1998
Obligations and Non-budgetary Resource		
Obligations Incurred	$373,215	$358,312
Less: Spending Authority for Offsetting Collections and Other Budgetary Adjustments	24,981	685
Less: Exchange Revenue not in the Budget	264	288
Total Obligations as Adjusted, and Non-budgetary Resources	$347,970	$357,339
Resources That Do Not Fund Net Cost of Operations		
Change in Amount of Goods, Services, and Benefits Ordered but not yet Received or Provided	$5,370	($33,232)
Cost Capitalized on the Balance Sheet	(749)	(880)
Financing Sources That Fund Costs of Prior Periods	(2,042)	0
Other	0	0
Total Resources That do not Fund Net Cost of Operations	$2,579	($34,112)
Costs That Do Not Require Resources		
Depreciation and Amortization	$627	$962
Reevaluation of Assets and Liabilities	14,218	24,493
Other	174	1,713
Total Costs That do not Require Resources	$15,019	$27,168
Financing Sources Yet to be Provided	$982	$0
Net Cost of Operations	$366,550	$350,395

NOTE 1.

Summary of Significant Accounting Policies:

A. Basis of 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 the Office of Surface Mining Reclamation and Enforcement (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 generally accepted accounting principles (GAAP) using guidance issued by the Federal Accounting Standards Advisory Board (FASAB) and 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.

The financial statements should be read with the realization that they are for a component of the United States Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources and 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:

- Statements of Federal Financial Accounting Standards (SFFAS). These statements reflect the accounting principles, standards, and requirements recommended by the Federal Accounting Standards Advisory Board (FASAB) and approved by the Comptroller General of the United States, the Director of the Office of Management and Budget (OMB) and the Secretary of the Treasury.

- Form and content requirements for financial statements, as presented in OMB Bulletin No. 97-01 (Form and Content of Agency Financial Statements).

- 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 entity and the presentation of financial information.

B. Reporting Entity

OSM was established as a regulatory agency in the 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, the 1992 revision extended this authority through the year 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 to 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 OMB to report on the accounting of SMCRA funds. The Treasury acts as custodian over all monies appropriated and collected by OSM, except for imprest funds.

C. Business Segments

1. Fund Accounting

OSM is responsible for segregating accounting entries by category of source or use, otherwise known as funds. For reporting purposes, 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 excise taxes (Special Fund) and civil penalty assessments for the purpose of reclamation projects.

Special 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.

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. Also included in this category are OSM's unfunded contingencies and capitalized assets.

Deposit Funds — These funds account for receipts awaiting proper classification, amounts held in escrow, and proceeds from the sale of vehicles. Vehicle proceeds, which are reserved exclusively for the purchase of replacement vehicles, are not treated as earned until replacement vehicles are acquired.

Receipt Funds — These funds 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. Responsibility Segments

Beginning in Fiscal Year 1998, OSM is responsible for reporting costs by responsibility segments. OSM's four primary business lines are its responsibility segments:

Environmental Restoration — This segment 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, as well as funding of related OSM activities.

Environmental Protection — This segment is responsible for assuring that the Surface Mining Law's goals are achieved, primarily through the states and Indian tribes. It includes OSM rulemaking, 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.

Technology Development and Transfer — This segment is responsible for assuring that the states, Indian tribes, federal agencies, industry and citizen organizations have the technical information and tools they need to carry out the Surface Mining Law. It includes technical assistance to improve the regulatory process and the Abandoned Mine Land program, the Technical Information Processing System, the Training program, and the Applicant Violator System.

Financial Management — This segment is responsible for assuring that the financial assets entrusted to OSM are properly managed and safeguarded. It includes the collection, auditing and investment of the Abandoned Mine Land fees; the accounting, reporting and payment of grant funds, and management of other revenues such as bond forfeitures and civil penalty collections.

The costs of the Executive Direction and Administration are allocated to these four responsibility segments.

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 receives appropriated 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. Transfers In/Transfers Out

Beginning in fiscal year 1996, OSM has annually transferred a portion of the interest it has earned through investment of the AML Fund's unexpended balance to the United Mine Workers of America Combined Benefit Fund (UMWACBF). These AML interest proceeds are made available to provide health benefits for certain eligible retired coal miners and their dependents. See Note 13 for additional information.

The Office of Surface Mining also administers and accounts for financial activity affecting no-year funds which, 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 15 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, which was revised effective the fourth quarter of fiscal year 1992, is used for special and civil penalty funds accounts receivable. Under this method, an allowance for doubtful accounts is calculated quarterly based upon OSM's past experience in successfully collecting delinquent accounts receivable by aging category. OSM's allowance methodology is representative of the collectibility of delinquent debt. 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 which are disbursed through an automated payment system. OSM accrues these draw-downs as expenditures. All 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. Since there is no reasonable means to directly charge shared expenses, both Regulation and Technology and AML 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 and) 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. OSM distributes at least $1.5 million to states or tribes with qualifying reclamation 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 and Cash

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. Note 3 provides additional information concerning investments. In FY 1999, OSM changed the way we reported our investments earned but not yet collected. It is now classified as an Amortization on Premiums or Discounts on Note 3. On previous financial statements, that transaction was reported as a Receivable with the Government.

Some of these investment earnings are transferred to the United Mine Workers of America Combined Benefit Fund to pay for health benefits of qualifying mine worker beneficiaries. The maximum annual transfer, exclusive of prior-year adjustments, cannot exceed the annual interest collected each year. The actual transfer is based on the expected costs to the UMWACBF. If the interest collected is less than the UMWACBF estimated annual costs, the transfer will consist of the interest collected for the fiscal year, plus an amount from the interest earnings of $132 million collected during FYs 1993-1995. Note 13 provides additional information concerning UMWACBF transfer.

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 a 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 ten percent of their gross earnings to the plan. CSRS employees have the option of contributing to the thrift savings plan up to five 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. Please see Note 15 for a further breakdown.

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.

NOTE 2.

Fund Balance with Treasury:

The Treasury performs cash management activities for all government agencies. The Fund Balance with Treasury under Current Assets 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. Restricted amounts represent the AML fees collected but not yet made available by Congress.

Fund Balance with Treasury
(dollars in thousands)

	1999	1998
Available	$330,191	$317,356
Restricted	1,462,253	1,363,941
Subtotal Fund Balance	$1,792,444	$1,681,297
Less Invested Balance (See Note 3)	1,751,965	1,637,119
Total Fund Balance	$40,479	$44,178

NOTE 3.

Investments:

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.

When previously-issued Treasury bills are purchased by OSM, the unamortized (discount) or premium is calculated by the Treasury at the time of purchase.

Investments are entered at the market value, with the discount accrued as amortization on premiums or discounts starting in FY99. All discount accruals prior to FY99 have been accrued as interest receivable.

Investments - Treasury Bills
(dollars in thousands)

	1999	Restated 1998
Face Value	$1,764,997	$1,668,182
Unamortized Discount	(30,491)	(31,063)
Amortization on Premiums or Discounts	17,459	24,185
Net Investments	$1,751,965	$1,661,304

NOTE 4.

Accounts Receivable:

A.

Accounts Receivable due from Federal Agencies OSM Assets
(dollars in thousands)

	1999	Restated 1998
U.S. Postal Service	$0	$30
Department of the Interior	2	0
Department of Energy	0	1
USAID (Dept. of State)	32	0
Net Receivables with the Government	$34	$31

There is no Allowance for Uncollectible Amounts recorded for receivables with other government agencies. All receivables with the government are either collected or reclassified at a later date.

B.

Accounts Receivables due from the Public OSM Assets
(dollars in thousands)

	Gross A/R	Allowance for Uncollectible Accounts Beginning Balance	Additions	Reductions	Ending Balance	1999 Net A/R	1998 Net A/R
Accounts Receivable	$14,806	$14,104	$2,251	($2,507)	$13,848	$958	$1,894
Interest Receivable	13,088	12,852	1,679	(1,808)	12,723	365	749
Total Receivable	$27,894	$26,956	$3,930	($4,315)	$26,571	$1,323	$2,643

Reclamation receivables will, upon collection, increase the state and federal share set-aside balances discussed in footnote 1D3.

Method of Determining Allowance for Uncollectible Accounts: Determination of the allowance of uncollectible accounts is accomplished by first categorizing the accounts receivable and collections on those receivables. The amount of receivable collections in each category is then divided by the total of both the receivables and collections in that category. This percentage represents the amount of receivables that are deemed collectable. Thus, the inverse of this percentage becomes the amount of receivables deemed to be uncollectible. For example, if 75 percent of receivables is deemed collectible, an allowance for uncollectible accounts would reflect 25 percent of the total receivables balance.

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

Accounts Receivables due from the Public Held on Behalf of others
(dollars in thousands)

	Gross A/R	Allowance for Uncollectible Accounts Beginning Balance	Additions	Reductions	Ending Balance	1999 Net A/R	1998 Net A/R
Interest Receivable:							
Civil Penalty Other	$1,243	$1,258	$174	($193)	$1,239	$4	$26
Administrative Other	17	0	0	0	0	17	17
Total Receivables	$1,260	$1,258	$174	($193)	$1,239	$21	$43

The Other category represents accounts receivable for interest, penalties, and administrative costs. Civil penalty interest is retained by OSM to reclaim mining sites. Civil penalty administrative and penalty charges are forwarded to the Treasury.

Please see Footnote 4B for explanation of determination of uncollectible accounts.

Note 5.

Physical Assets:

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 more and the estimated useful life is two years or longer. This is a change from prior years where the capitalization threshold was $5 thousand or more. 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 an asset's useful life and is determined using General Services Administration guidance.

Physical Assets
(dollars in thousands)

	Service Life	Acquisition Value	Accumulated Depreciation	1999 Book Value	1998 Book Value
ADP Equipment	15	$2,691	($1,451)	$1,240	$3,264
Office Equipment	11-20	784	(184)	600	1,116
Vehicles	6-10	2,347	(1,156)	1,191	1,177
Total Physical Assets		$5,822	($2,791)	$3,031	$5,557

Note 6.

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.

Amounts Held for Others
(dollars in thousands)

	1999	1998
Reimbursable Advance	$524	$1,409
Other Escrows	68	92
Civil Penalties Escrow	118	125
Bonds	10	10
Other Deposits	31	254
Overpayments	132	109
Total Amounts Held for Others	$883	$1,999

Note 7.

Other 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 as the grantee incurs them.

B. Contingent Liabilities

There have been claims filed against OSM with adjudication pending. As of September 30 an additional $10 million (for a total of $120.6 million for all years) has been accrued in the financial statements for cases in which payment has been deemed probable and for which the amount of potential liability has been established. Cash settlements are expected to be paid out of the Judgement Fund maintained by Treasury rather than from operating resources of OSM.

No amounts have been accrued in the financial records for claims where the amount or probability of judgement 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.

Note 8.

Unexpended Appropriations:

Unexpended Appropriations
(dollars in thousands)

	1999	1998
Unobligated and Available	$53,736	$43,840
Unobligated and Unavailable	7,566	10,681
Obligated	260,837	266,206
Total Unexpended Appropriations	$322,139	$320,727

Note 9.

Cumulative Results of Operations:

The Federal Accounting Standards Advisory Board (FASAB) Standard, "Accounting for Revenue and Other Financing Sources", combines Cumulative Results of Operations with Invested Capital and Future Funding Requirements.

Cumulative Results of Operations
(dollars in thousands)

	1999	1998
Capitalized Property	$3,031	$5,557
Future Funding Requirements	(127,782)	(24,476)
Cumulative Results of Operations	1,462,681	1,285,848
Total Cumulative Results of Operations	$1,337,930	$1,266,929

Note 10.

Costs Paid to Federal Agencies:

Costs Paid to Federal Agencies
(dollars in thousands)

	1999	1998
Department of the Interior:		
Bureau of Reclamation	$91	$170
Bureau of Land Management	13	7
Minerals Management Service	78	37
National Park Service	0	11
Office of the Secretary	3,424	2,736
Fish and Wildlife Service	4	0
Bureau of Mines	0	2
U.S. Geological Survey (USGS)	65	52
Total, Department of the Interior	$3,675	$3,015
Other Federal Agencies:		
U.S. Postal Service	$166	$0
General Services Administration	3,925	4,358
U.S. Treasury	29	9
Government Printing Office	239	284
Department of State	33	0
Other	4,353	4,402
Total, Other Federal Agencies	$8,745	$9,053
Depreciation Expense	$627	$961
Total Costs Paid to Federal Agencies	$13,047	$13,029

Note 11.

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.

Earned Revenue
(dollars in thousands)

From Federal Agencies:	1999	1998
Bureau of Indian Affairs	$1,141	$1,292
Bureau of Land Management	0	62
National Park Service	16	0
Minerals Management Service	81	10
Office of the Secretary - DOI	30	22
Environmental Protection Agency	55	21
Department of Energy	7	2
Department of State	727	31
General Services Administration	85	0
Internal Revenue Service	0	48
Total Revenue from Federal Government	$2,142	$1,488
From the Public:		
Bond Forfeitures	$241	$51
Indonesia	87	586
Kentucky	0	6
Pennsylvania	591	19
Miscellaneous	18	1,128
Total Revenue from the Public	$937	$1,790
Total Earned Revenue	$3,079	$3,278

Note 12.

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.

Future Funding Requirements
(dollars in thousands)

	1999	1998
Accrued Unfunded Leave	($22)	($100)
FECA	1,058	119
Contingent Liabilities	10,011	20,438
Total Future Funding Requirements	$11,047	$20,457

Note 13.

UMWACBF 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 in 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 (UMWACBF). These AML interest proceeds are made available to provide health benefits for certain eligible retired coal miners and their dependents. Payments are made annually based on the number of beneficiaries and are made in advance based on an estimate. Under current practice, the estimate is then adjusted

to actual costs as health benefits are paid. Additionally, the number of beneficiaries can change from year to year based on court cases, bankruptcies, and mortality. The large increase in beneficiaries and dollars between fiscal year 1998 and 1999 is due primarily to the United States Supreme Court's decision in the Eastern Enterprises case. On June 25, 1998, as a result of the Supreme Court's ruling, Eastern Enterprises and similarly situated companies were released from their liability to pay health benefits for mine workers and beneficiaries that had been assigned to them. These beneficiaries then were transferred to OSM for payment from FY 96 forward. The cost adjustments shown below reflect OSM's payment of these beneficiaries for prior years.

UMWACBF Transfers
(dollars in thousands)

	1999	Restated 1998
Total Number of Beneficiaries	19,663	15,469
1999 Costs	$47,588	
1998 Costs	9,495	$36,249
1997 Costs	15,129	7,034
1996 Costs	9,554	(10,721)
Total Payment	$81,766	$32,562

Note 14.

Other Revenues and Financing Sources:

Other Revenues and Financing Sources
(dollars in thousands)

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

	1999	1998
Administrative Revenue from AML fees	$126	$707
Civil Penalty Revenue	(53)	(1,253)
Total Other Revenues and Financing Sources	$73	($546)

Note 15.

Imputed Financing Sources:

Prior to 1997, Department of the Interior agencies did not report or record an assigned expense or assigned financing source for retirement and post-employment benefits borne by the Office of Personnel Management. Because of new guidance issued by the Federal Accounting Standards Advisory Board, effective in 1997, these assigned expenses and financing sources are reported and recorded. This allows agencies to more accurately reflect the benefit expenses created by the agency's operations. 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 Assigned Cost	1999
Civil Service Retirement System Pensions	$23,067	10.20%	$2,353
Civil Service Retirement System Offset Pensions	1,997	11.50%	230
Retirement Life Insurance	29,230	0.02%	6
Retirement Health Benefits 573 employees (yearly average) multiplied by $2,731.00 per employee			1,564
Total Assigned Benefits Cost			$4,153

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

Note 16.

Invested Capital Adjustments and Other Changes:

Invested Capital Adjustments and Other Changes
(dollars in thousands)

	1999	1998
Restatement of Assets	$0	($266)
Loss on Disposal of Assets	(49)	(111)
Total Invested Capital Adjustments and Other Changes	($49)	($377)

Note 17.

Prior Period Adjustments:

Prior Period Adjustments
(dollars in thousands)

	1999	1998
Reclassification of civil penalty debt for changes and/or corrections to prior year accounts receivables for individual circumstances.	($3)	$1,007
Reclassification of AML Fee Billing and Collections for changes and/or corrections to prior year accounts receivables for individual circumstances.	0	(4,955)
Reclassification of Audited Fee Billing and Collections for changes and/or corrections to prior year accounts receivables for individual circumstances.	(508)	(1,598)
Recording of FECA actuarial liability for differences between FY98 and FY99. Direction given at the Department level for the entry.	0	(1,622)
Reclassification of property from capitalized to non-capitalized. The capitalization threshold was changed from $5,000 to $15,000 in FY99.	(2,320)	0
Recording of revenue that should have been reported in FY98. The investment accrual did not match with Treasury's accrual so adjustment was made.	30	0
Recording of expenses that should have been expensed in FY98. A FY98 grants schedule was erroneously backed out of ABACIS at the end of the year.	(2,042)	0
Total Prior Period Adjustment	($4,843)	($7,168)

Note 18.

Appropriations Available for Investment:

The Abandoned Mine Land Fund constitutes the largest portion of the Office of Surface Mining's assets. This fund consists of available and restricted balances as summarized in Note 2. Available balances are those which have been previously authorized by Congress to finance reclamation of abandoned mine lands. The restricted balance refers to the amount of fee collections and investment interest income which are yet to be authorized by Congress for use by the Office of Surface Mining or transferred to other agencies per the Abandoned Mine Land Reclamation Act of 1990 and the Energy Policy Act of 1992. The restricted balances for 1999 and 1998 are detailed below:

Appropriations Available for Investment
(dollars in thousands)

	1999	1998
Beginning Balance	$1,351,565	$1,221,681
Add: Fee Collections	276,674	273,039
Add: Investment Interest	82,830	67,031
Less: Appropriations	185,416	177,624
Add: Appropriation Rescission	25	0
Less: Transfers Out	81,766	32,562
Ending Balance	$1,443,912	$1,351,565

Note: Public Law 106-51 reduced the current year appropriation by $ 24,500. This rescission action returned those funds to the AML restricted balance. Please refer to Note 2 for further information on restricted and unrestricted asset balances.

Note 19.

Expired Unobligated Balances:

To properly report the financial position of the agency, 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 $7.5 million.

Note 20.

Statement of Financing Restated:

The 1998 data has been restated. OSM has changed the presentation of the transfer of the AML Appropriation from Appropriated Revenues to Change in Unexpended Appropriations.

OFFICE OF SURFACE MINING
RECLAMATION AND ENFORCEMENT
Fiscal Year 1999 Financial Statements
and
Accompanying Footnotes
Prepared in Accordance with
Federal Accounting Standards Advisory Board

SUPPLEMENTAL STATEMENT OF NET COST

For the Year Ended September 30, 1999

(dollars in thousands)

Responsibility Segments Costs:	
Environmental Protection	
Total Costs	$77,015
Less Earned Revenue	726
Net Environmental Protection Costs:	$76,289
Environmental Restoration	
Total Costs	169,996
Less Earned Revenue	1,016
Net Environmental Restoration Costs:	$168,880
Technology Development and Transfer	
Total Costs	20,959
Less Earned Revenue	1,228
Net Technology Development and Transfer Costs:	$19,731
Financial Management	
Total Cost	9,025
Less Earned Revenue	99
Net Financial Management Costs	$8,926
Net Program Costs	$273,826
Costs Not Allocated to Programs	
Future Funding Requirements	11,047
UMWA-Combined Benefit Fund Payments:	81,766
Miscellaneous Bad Debt Expense	174
Total Unallocated Costs:	$92,987
Less Other Revenues	263
Net Unallocated Costs	92,724
Net Cost of Operations	$366,550

SUPPLEMENTAL STATEMENT OF CHANGES IN NET POSITION

FOR THE YEAR ENDED SEPTEMBER 30, 1999

(dollars in thousands)

	1999	Environmental Protection	Environmental Restoration	Technology Development and Transfer	Financial Management	Unallocated Costs
Net Cost of Operations	$366,550	$76,289	$168,880	$19,731	$8,926	$92,724
Subtracted from Financing Source:						
Appropriations Used	353,943	74,903	169,945	18,883	8,446	81,766
AML Interest, Non-Federal	98				98	
Investment Interest Earned, Federal	76,073				76,073	
Revenue from Fees Assessed	276,030				276,030	
Other Revenues and Financing Sources (Note 14)	73				73	
Imputed Financing Sources (Note 15)	4,153				4,153	
Appropriated Revenues	(99)				(99)	
Financing Sources Transferred-In/Out	(330)					(330)
Net Results of Operations	**$343,391**	**($1,386)**	**$1,065**	**($848)**	**$355,848**	**($11,288)**
Invested Capital - Adjustments and other Changes (Note 16)	(49)	(22)	(10)	(11)	(6)	
Prior Period Adjustments (Note 17)	(4,843)	(1,371)	(2,169)	(543)	(717)	(43)
Net Change in Cumulative Results of Operations	**$338,499**	**($2,779)**	**($1,114)**	**($1,402)**	**$355,125**	**($11,331)**
Change in Unexpended Appropriations	(266,086)	(4,120)	(167,601)	(5,378)	(7,221)	(81,766)
Change in Net Position	**$72,413**	**($6,899)**	**($168,715)**	**($6,780)**	**$347,904**	**($93,097)**
Net Position-Beginning of Period	1,587,656	38,962	453,910	11,023	1,118,446	(34,685)
Net Position-End of Period (Note 8 & 9)	**$1,660,069**	**$32,063**	**$285,195**	**$4,243**	**$1,466,350**	**($127,782)**

United States Department of the Interior

OFFICE OF SURFACE MINING
RECLAMATION AND ENFORCEMENT
Washington, D.C. 20240

JAN 28 2000

Memorandum

To: Earl E. Devaney, Inspector General
Office of the Inspector General

From: Robert J. Ewing, Chief Financial Officer

Subject: Management Representations for the Department of the Interior (DOI)
Fiscal Year 1999 Consolidated Financial Statements

This letter is in connection with your audit of the Office of Surface Mining (OSM) Statement of Financial Position as of September 30, 1999, and the related Statements of Net Cost of Operations, Changes in Net Position, Budgetary Resources, and Financing for the fiscal years then ended, as well as fiscal year 1998 comparative information and other information presented in the Departmental Report (collectively referred to as "financial statements") for the purposes of: (1) expressing an opinion as to whether the Principal Statements are presented fairly, in all material respects, in conformity with Federal accounting standards; and (2) reporting whether the agency's financial management systems substantially comply with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 1999.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit, that these representations are as of the date of your auditor's report, and pertain to the periods covered by the financial statements. These representations update the representations we provided in conjunction with your audit of the financial statements as of and for the year ended September 30, 1998.

1. We are responsible for the presentation of the financial statements and required supplemental information in conformity with Federal accounting standards.

2. The financial statements and supplemental reports are fairly presented in conformity with Federal accounting standards.

3. We are responsible for the identification of and compliance with pertinent laws and regulations and for establishing and maintaining an internal control structure.

4. We have made available to the auditors all:

   a. financial records and related data, and

   b. communications from the Office of Management and Budget (OMB) concerning noncompliance with or deficiencies in financial reporting practices.

5. There are no significant transactions that have not been properly recorded in the accounting records underlying the financial statements or disclosed in the Notes to the financial statements.

6. We have properly identified and eliminated all significant intra-bureau transactions. All intra-governmental transactions and balances have been appropriately recorded, reported, and disclosed. Also, we have reconciled significant intra-governmental transactions with the appropriate trading partner, including the following types of activities: Investments in Public Debt Securities, Borrowings from Treasury, Borrowings from the Federal Financial Bank, interest (revenue, expense, receivable, payable) related to investments and debt, agency contributions to employee benefit plans (e.g., OPM and the Department of Labor), and intra-governmental revenue. Related party transactions and related accounts receivable or payable, including assessments, have been properly recorded and disclosed.

7. We have complied with all aspects of contractual agreements that would have a significant effect on the financial statements in the event of noncompliance.

8. There has been no significant fraud (intentional misstatements or omissions of amounts or disclosures in the financial statements and misappropriation of assets that could have a significant affect on the Principal Financial Statements or Required Supplementary Information) or any fraud involving management or employees who have significant roles in internal control.

9. There have been no communications from regulatory agencies or oversight agencies, such as the Office of Management and Budget, the Department of the Treasury, and the U.S. General Accounting Office, concerning noncompliance with, or deficiencies in, financial reporting practices that could have a significant effect on the Department's financial statements.

10. We have no plans or intentions that may significantly affect the carrying value or classification of assets and liabilities.

11. Where significant, accounts receivable have been reduced to their estimated net realizable value.

12. The DOI administers approximately four hundred million acres of real property, with title held in the name of the United States, that is not considered an asset for purposes of this

memo. This includes, but is not limited to, lands within the National Park System, National Wildlife Refuge System, Public Lands, and other Federal lands and interests in land. Accordingly, except as disclosed in the Notes to the Financial Statements, the Office of Surface Mining, either in its name or that of the United States, as appropriate, holds satisfactory title to the assets that it owns or administers, and there are no material liens or encumbrances on such assets inconsistent with such Federal ownership interest.

13. There are no:

    a. possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency,

    b. other liabilities or gain or loss contingencies that are required to be accrued or disclosed by Federal accounting standards, except for unresolved recommendations in prior OIG and General Accounting Office audit reports,

    c. unasserted claims or assessments that are probable of assertion and must be disclosed in accordance with Statements of Federal Financial Accounting Standards (SFFAS), except as disclosed in the Notes to the Financial Statements.

14. We are responsible for establishing and maintaining internal controls.

15. Pursuant to the Federal Managers Financial Integrity Act, we have assessed the effectiveness of the Bureau's internal controls in achieving the following objectives:

    a. Reliability of financial reporting-- transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements and Required Supplementary Stewardship Information in accordance with Federal accounting standards, and the safeguarding of assets against loss from unauthorized acquisition, use, or disposition;

    b. Compliance with applicable laws and regulations--transactions are executed in accordance with: (i) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements, and (ii) any other laws, regulations, and governmentwide policies identified by the OMB in Appendix C of OMB Bulletin 98-08; and

    c. Reliability of performance reporting--transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

16. Those controls in place on September 30, 1999, provided reasonable assurance that the foregoing objectives are met.

17. We are responsible for implementing and maintaining financial management systems that comply substantially with Federal financial management systems requirements contained in OMB Circular A-127, "Financial Management Systems," applicable Federal accounting standards, and the U.S. Government Standard General Ledger (SGL) at the transaction level.

18. We have assessed the financial management systems to determine whether they comply substantially with these Federal financial management systems requirements. Our assessment was based on criteria established under OMB Circular A-127 and guidance issued by OMB and included in Appendix D of OMB Bulletin 98-08.

19 As of September 30, 1999, the financial management systems do not comply substantially with the Federal financial management system requirements, as described below:

The Audit Report on General and Application Controls Over Automated Information Systems completed by the Office of Inspector General and transmitted on December 21, 1999, states that the weaknesses found in OSM's general controls over its automated information systems should be reported as a "reportable condition" in OSM's annual financial statements for fiscal year 1999. Specifically, OSM did not have an adequate security program; did not have controls over access to automated information systems resources, systems software, separation of duties, software development and change management; and did not have assurance of continued operations in the event of a disaster or system failure. OSM has completed or has begun actions needed to implement the recommendations; however, many of these actions were not completed by the end of fiscal year 1999.

20. We are responsible for the compliance with the applicable laws and regulations.

21. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

22. We have disclosed to you all known instances of noncompliance with laws and regulations.

23. No events have occurred subsequent to September 30, 1999, that would require adjustment of, or disclosure in, the consolidated financial statements.

If you have any questions with respect to this letter, please contact Robert Ewing at (202) 208-2560.

United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

MAY 10 2000

INDEPENDENT AUDITORS REPORT

Memorandum

To: Director, Office of Surface Mining Reclamation and Enforcement

Subject: Independent Auditors Report on Office of Surface Mining Reclamation and Enforcement Financial Statements for Fiscal Years 1999 and 1998 (No. 00-I-433)

SUMMARY

In our audit of the Office of Surface Mining Reclamation and Enforcement's (OSM) financial statements for fiscal year 1999, we found the following:

- The principal financial statements were fairly presented in all material respects. OSM's principal financial statements consist of the Consolidated Statements of Financial Position as of September 30, 1999, and 1998, and the Consolidated Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing for the fiscal years ended September 30, 1999, and 1998.

- Our tests of internal controls identified a reportable condition involving OSM's general controls over its automated information systems. Specifically, OSM did not have an adequate security program; did not have controls over access to automated information systems resources, systems software, separation of duties, and software development and change management; and did not have assurance of continued operations in the event of a disaster or a system failure.

- Our tests of compliance with laws and regulations identified a noncompliance issue that is required to be reported concerning the Federal Financial Management Improvement Act of 1996.

Our conclusions are detailed in the sections that follow.

OPINION ON PRINCIPAL FINANCIAL STATEMENTS

In accordance with the Chief Financial Officers Act of 1990, we audited OSM's principal financial statements for the fiscal years ended September 30, 1999, and 1998, as contained

in OSM's accompanying 1999 Annual Report. These financial statements are the responsibility of OSM, and our responsibility is to express an opinion, based on our audit, on these principal financial statements.

Our audit was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States, and with Office of Management and Budget Bulletin 98-08, "Audit Requirements for Federal Financial Statements," as amended. These audit standards require that we plan and perform the audit to obtain reasonable assurance as to whether the accompanying principal financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the principal financial statements and the accompanying notes. An audit also includes assessing the accounting principles used and the significant estimates made by management. We believe that our audit work provides a reasonable basis for our opinion.

As disclosed in footnotes 3 and 20 to the principal financial statements, OSM restated the financial statements for fiscal year 1998. In OSM's 1998 Annual Report, the investments and the interest receivable on investments were reported separately in the Consolidated Statement of Financial Position. In OSM's 1999 Annual Report, the investments and the interest receivable on investments were combined into one line entitled "Investments." In addition, OSM changed the reporting of the fiscal year 1998 Abandoned Mine Lands appropriation. In the 1998 Annual Report, the $210 million Abandoned Mine Lands appropriation for fiscal year 1998 was reported as Appropriated Revenue in the Consolidated Statement of Changes in Net Position. In the 1999 Annual Report, the Abandoned Mine Lands appropriations for fiscal years 1999 and 1998 were reported on the line entitled "Changes in Unexpended Appropriations" in the Consolidated Statement of Changes in Net Position.

In our opinion, the principal financial statements (pages 48-52) present fairly, in all material respects, the financial position of OSM as of September 30, 1999, and 1998, and its consolidated net cost, changes in net position, budgetary resources and outlays, and financing for the fiscal years ended September 30, 1999, and 1998, in conformity with generally accepted accounting principles. The supplemental statements of net cost and changes in net position for fiscal year 1999, which follow the notes to the consolidated financial statements (pages 53-67), were subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, are fairly stated in all material respects in relation to the principal financial statements taken as a whole.

REPORT ON INTERNAL CONTROLS

Our audit was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States, and with Office of Management and Budget Bulletin 98-08.

Management of OSM is responsible for establishing and maintaining an internal control structure which provides reasonable assurance that the following objectives are met:

- Transactions are properly recorded, processed, and summarized to permit the preparation of the principal financial statements and the required supplementary stewardship information in accordance with Federal accounting standards.

- Assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

- Transactions are executed in accordance with (1) laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the principal financial statements and the supplemental statements of net cost and changes in net position and (2) any other laws, regulations, and Governmentwide policies identified by the Office of Management and Budget.

- Transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

Because of inherent limitations in any internal control structure, errors or fraud may occur and not be detected. Also, projections of any evaluation of the internal controls over financial reporting to future periods are subject to the risk that the internal controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In planning and performing our audit, we considered OSM's internal controls over financial reporting by obtaining an understanding of OSM's internal controls, determined whether these internal controls had been placed in operation, assessed control risks, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing an opinion on the principal financial statements and the supplemental statements of net cost and changes in net position and not to provide assurance on the internal controls over financial reporting. Consequently, we do not express an opinion on internal controls.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal control structure over financial reporting that might be reportable conditions. Under standards established by the American Institute of Certified Public Accountants and by Office of Management and Budget Bulletin 98-08, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls that, in our judgment, could adversely affect OSM's ability to record, process, summarize, and report financial data consistent with the assertions made by management in the principal financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted a certain matter involving the internal control and operation that we consider to be a reportable condition as described by the American Institute of Certified Public Accountants and Office of Management and

Budget Bulletin 98-08. However, the reportable condition is not considered to be a material weakness.

OSM Needs Improved General and Application Controls Over its Automated Information Systems

The report "General and Application Controls Over Automated Information Systems, Office of Surface Mining Reclamation and Enforcement" (No. 00-I-138), issued by our office in December 1999, stated that the general controls over OSM's automated information systems were not effective. Specifically, OSM did not have an adequate security program that included security plans which addressed risks to sensitive financial data and sensitive automated information systems. Additionally, OSM did not have adequate controls over (1) access to automated information systems' resources, such as controlling the levels of access granted to system users, passwords, and password settings; (2) operating systems to ensure integrity over systems processing and data; (3) separation of duties between security administrators and security reviewers and the duties between application programmers and users; and (4) software changes to ensure that the changes were authorized, approved, and tested before being moved into production. Further, OSM did not develop a continuity of operations plan for its telecommunications links, did not finalize plans for its facilities and data center, and did not have an incident response plan or team. The lack of adequate controls increased the risk of unauthorized access and modifications to and the disclosure of OSM data, theft or destruction of OSM software and sensitive information, and loss of critical OSM systems and functions in the event of a disaster or a system failure. OSM concurred with the findings and recommendations contained in the report and took immediate actions to resolve the deficiencies. In its remediation plan, which was developed in response to the report, OSM indicated that all of the weaknesses would be corrected by September 30, 2000.

With respect to the internal controls related to the performance measures reported in OSM's overview (pages 17, 29, 37, and 47), we obtained an understanding of the design of significant internal controls related to the existence and completeness assertions, as required by Bulletin No. 98-08. Our procedures were not designed to provide assurance on internal controls over reported performance measures, and accordingly, we do not provide an opinion on such controls.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Our audit was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States, and with Office of Management and Budget Bulletin 98-08.

The management of OSM is responsible for complying with laws and regulations applicable to that agency. As part of obtaining reasonable assurance about whether OSM's principal financial statements are free of material misstatement, we performed tests of OSM's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and

certain other laws and regulations specified in Bulletin 98-08, including the requirements referred to in the Federal Financial Management Improvement Act of 1996. However, providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance with laws and regulations discussed in the preceding paragraph exclusive of the Federal Financial Management Improvement Act disclosed no instances of noncompliance that are required to be reported under the "Government Auditing Standards" or Bulletin 98-08.

Under the Federal Financial Management Improvement Act, we are required to report whether OSM's financial management systems were in substantial compliance with requirements for Federal financial management systems, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. To meet these requirements, we performed tests of compliance using the implementation guidance for the Federal Financial Management Improvement Act included in Appendix D of Bulletin 98-08.

We believe that the ineffective general controls over OSM's automated information systems discussed in the Report on Internal Controls section of this report are significant departures from certain requirements of Office of Management and Budget Circulars A-127, "Financial Management Systems," and A-130, "Management of Federal Information Resources," and are therefore instances of substantial noncompliance with the Federal financial management systems requirements under the Federal Financial Management Improvement Act.

Except as noted in the previous paragraph, the results of our tests of compliance disclosed no instances of noncompliance with other laws and regulations that are required to be reported under the "Government Auditing Standards" or Bulletin 98-08.

CONSISTENCY OF OTHER INFORMATION

We reviewed the financial information presented in OSM's overview (pages 7-47) and supplementary information (pages 68-69) to determine whether the information was consistent with the principal financial statements. Based on our review, we determined that the information in the overview was consistent with the principal financial statements.

PRIOR AUDIT COVERAGE

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

OBJECTIVE, SCOPE, AND METHODOLOGY

Management of OSM is responsible for the following:

- Preparing the principal financial statements and the required supplemental information referred to in the Consistency of Other Information section of this report in conformity with generally accepted accounting principles and for preparing the other information contained in the 1999 Annual Report.

- Establishing and maintaining an internal control structure over financial reporting. In fulfilling this responsibility, estimates and judgments are required to assess the expected benefits and related costs of internal control structure policies and procedures.

- Complying with applicable laws and regulations.

We are responsible for the following:

- Expressing an opinion on OSM's principal financial statements.

- Obtaining an understanding regarding the effectiveness of the internal controls based upon the internal control objectives in Bulletin 98-08, which require that transactions be properly recorded, processed, and summarized to permit the preparation of the principal financial statements and the required supplemental information in accordance with Federal accounting standards; that assets be safeguarded against loss from unauthorized acquisition, use, or disposal; and that transactions and other data that support reported performance measures be properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

- Testing OSM's compliance with selected provisions of laws and regulations that could materially affect the principal financial statements or the required supplementary information.

To fulfill these responsibilities, we took the following actions:

- Examined, on a test basis, evidence supporting the amounts disclosed in the principal financial statements.

- Assessed the accounting principles used and the significant estimates made by management.

- Evaluated the overall presentation of the financial statements.

- Obtained an understanding of the internal control structure related to safeguarding assets; compliance with laws and regulations, including the execution of transactions in

accordance with budget authority; financial reporting; and certain performance measure information reported in the Overview.

- Tested relevant internal controls over the safeguarding of assets; compliance with laws and regulations, including the execution of transactions in accordance with budget authority; and financial reporting.

- Tested compliance with selected provisions of laws and regulations.

We did not evaluate all of the internal controls relevant to the operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to those controls necessary to achieve the objectives outlined in our report on internal controls.

We also identified other issues that, in our judgment, were not required to be included in this audit report but that should be communicated to management. We have included these issues in a management letter that will be issued separately.

In an April 3 , 2000, exit conference, OSM officials generally agreed with the findings contained in the report and made comments on the report. Their comments were considered in the preparation of this report and were incorporated as appropriate.

Since this report does not contain any recommendations, a response is not required.

Section 5(a) of the Inspector General Act (5 U.S.C. app. 3) requires the Office of Inspector General to list this report in its semiannual report to the Congress. In addition, the Office of Inspector General provides audit reports to the Congress.

This report is intended for the information of management of OSM and the Office of Management and Budget and the Congress. However, this report is a matter of public record, and its distribution is not limited.

Roger La Rouche
Acting Assistant Inspector General
for Audits