CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30,

(dollars in thousands)

	1998	1997
ASSETS		
Entity Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	**$44,178**	$51,634
Cash (Imprest)	**0**	2
Investments (Note 3)	**1,637,119**	1,525,363
Accounts Receivable, Net (Note 4A)	**31**	82
Interest Receivable, Net (Note 4A)	**24,185**	8,488
With the Public:		
Accounts Receivable, Net (Note 4B)	**1,894**	2,317
Interest Receivable, Net (Note 4B)	**749**	1,009
Advances and Prepayments	**60**	32
Physical Assets (Note 5)	**5,557**	5,549
Total Entity Assets	**1,713,773**	1,594,476
Non-Entity Assets:		
With the Public:		
Interest Receivable, Net (Note 4C)	**43**	1,526
Total Non-Entity Assets	**43**	1,526
Total Assets	**1,713,816**	1,596,002
LIABILITIES		
Liabilities Covered by Budgetary Resources:		
Intragovernmental:		
Accounts Payable	**354**	186
With the Public:		
Accounts Payable	**4,764**	6,445
Accrued Payroll and Benefits	**2,242**	1,944
Total Liabilities Covered by Budgetary Resources	**7,360**	8,575
Liabilities Not Covered by Budgetary Resources:		
Intragovernmental:		
Accounts Payable	**64**	1,526
With the Public:		
Accounts Payable	**4,478**	4,457
Amounts Held for Others (Note 6)	**1,999**	1,616
Other Liabilities (Note 18)	**112,259**	90,200
Total Liabilities Not Covered by Budgetary Resources	**118,800**	97,799
Total Liabilities	**126,160**	106,374
NET POSITION		
Unexpended Appropriations	**320,727**	345,597
Cumulative Results of Operations	**1,266,929**	1,144,031
Total Net Position (Note 7 & 8)	**1,587,656**	1,489,628
Total Liabilities and Net Position	**1,713,816**	1,596,002

The accompanying footnotes are an integral part of these statements.

CONSOLIDATED STATEMENT OF NET COST FOR THE YEAR ENDED SEPTEMBER 30,

(dollars in thousands)

	1998	1997 Restated
COSTS		
Total Costs		
Intragovernmental (Note 10)	**$13,029**	$12,445
With the Public	**286,199**	276,152
Total Program Costs	**299,228**	288,597
Less Earned Revenue		
Intragovernmental	**(1,488)**	(1,424)
With the Public	**(1,790)**	(822)
Total Program Earned Revenue (Note 11)	**(3,278)**	(2,246)
Net Program Costs	**295,950**	286,351
Costs not allocated to programs		
Future Funding Requirements (Note 12)	**20,457**	12
UMWA Combined Benefit Fund Transfer (Note 9)	**32,562**	31,373
Miscellaneous Bad Debt Expense	**1,714**	(6,341)
Total Unallocated Costs	**54,733**	25,044
Less: Other Earned Revenue	**(288)**	(665)
Net Unallocated Costs	**54,445**	24,379
NET COST OF OPERATIONS	**$350,395**	$310,730

The accompanying footnotes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30,

(dollars in thousands)

	1998	1997
Net Cost of Operations	**$350,395**	$310,730
Less Financing Sources:		
Appropriations Used	**324,875**	313,615
AML Interest, Non-Federal	**370**	1,555
Investment Interest Earned, Federal	**82,729**	77,347
Revenue from Fees Assessed	**278,392**	274,453
Other Revenues and Financing Sources (Note 13)	**(546)**	(7,289)
Imputed Financing Sources (Note 20)	**4,036**	4,266
Appropriated Revenues	**(210,382)**	(208,745)
Financing Sources Transferred-Out	**1,379**	(1,704)
Transfers In/Transfers Out	**(15)**	0
Net Results of Operations	**130,443**	142,768
Invested Capital - Adjustments and Other Changes (Note 14)	**(377)**	18
Prior Period Adjustments (Note 15)	**(7,168)**	(108,316)
Net Change in Cumulative Results of Operations	**122,898**	34,470
Change in Unexpended Appropriations (Note 16)	**(24,870)**	(15,698)
Change in Net Position	**98,028**	18,772
Net Position-Beginning of Period	**1,489,628**	1,470,856
Net Position-End of Period (Note 8)	**$1,587,656**	$1,489,628

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,

(dollars in thousands)

	1998	1997
Budgetary Resources Made Available:		
Budget Authority	**$305,267**	$302,896
Appropriations Available for Investment but not Obligation (Note 19)	**1,351,565**	1,221,681
Unobligated Balances Available:		
Beginning of Period (includes expired) (Note 17)	**60,707**	69,043
Reimbursements and Other Income	**4,052**	2,145
Adjustments	**43,914**	43,540
Total Budgetary Resources Made Available	**1,765,505**	1,639,305
Status of Budgetary Resources:		
Obligations Incurred, Gross	**359,419**	356,918
Unobligated Balances Available - End of Period (Note 8)	**43,840**	46,209
Available for Investments but not Obligation (Note 19)	**1,351,565**	1,221,681
Unobligated Balances Not Available - end of period (Note 8)	**10,681**	14,497
Total Status of Budgetary Resources	**1,765,505**	1,639,305
Outlays:		
Obligations Incurred, Net	**306,078**	306,233
Obligated Balance-Beginning of Period	**293,270**	303,924
Less: Obligated Balance-End of Period	**(273,514)**	(293,270)
Total Outlays	**$325,834**	$316,887

Notes to Consolidated Financial Statements

For the Fiscal Year (FY) ended September 30, 1998 and 1997

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 guidance issued by the Federal Accounting Standards Advisory Board (FASAB) and the Office of Management and Budget (OMB).

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); and

■ 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 administrative grants, research and development facilitating the transfer of reclamation expertise to India, 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 -- 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. 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 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.

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. The transfer for fiscal year 1998 was $32,561,520.39. Fiscal year 1998 estimate was $36,248,662.39 and adjustments will be made to both the 1996 and 1997 transfer in the amounts of $10,721,401.26 downward and $7,034,259.26 upward, respectively, in fiscal year 1998 per SMCRA. On June 25, 1998, Eastern Enterprises won a court case against Apfel, Commissioner of Social Security et al. Eastern Enterprises was held liable for health benefits of mine workers and their beneficiaries. This court case released Eastern Enterprises from this liability. Note 9 provides additional information concerning the UMWACBF transfer.

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 20 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 uncollectable 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 collectability 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 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. 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, except for imprest fund accounts. 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. Some of this investment earnings is 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 UMWA 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 9 provides additional information concerning the 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 10 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 20 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.

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)

	1998 Total	1997 Total
Available	**$317,356**	$339,475
Restricted	**1,363,941**	1,237,522
Subtotal Fund Balance	**1,681,297**	1,576,997
Less Invested Balance (See Note 3)	**(1,637,119)**	(1,525,363)
Total Fund Balance	**$44,178**	$51,634

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 interest receivable. Please see note 4.

Investments - Treasury Bills

(dollars in thousands)

	1998 Total	1997 Total
Face Value	**$1,668,182**	$1,554,515
Unamortized Discount	**(31,063)**	(29,152)
Net Investments	**$1,637,119**	$1,525,363

Note 4. Accounts Receivable:

A.

Intragovernmental Receivables Entity (OSM) Assets

(dollars in thousands)

	1998 Total	1997 Total
U.S. Postal Service	**$30**	$50
Department of the Interior	**0**	28
Department of Energy	**1**	0
General Services Administration	**0**	4
Subtotal	**31**	82
Treasury	**24,185**	8,488
Net Intragovernmental Receivables	**$24,216**	$8,570

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

Note: The Treasury portion is the accrued interest receivable on investments, see Note 3.

4 B.

Receivables with the Public Entity (OSM) Assets

(dollars in thousands)

	Gross A/R	Allowance for Uncollectable Accounts Beginning Balance	Additions	Reductions	Ending Balance	1998 Net A/R	1997 Net A/R
Accounts Receivable:	$15,998	$20,218	$1,316	($7,430)	$14,104	**$1,894**	$2,317
Interest Receivable:	13,600	19,228	2,381	(8,758)	12,851	**749**	1,009
Total Receivables	$29,598	$39,446	$3,697	($16,188)	$26,955	**$2,643**	$3,326

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 aging the accounts receivable and collections on those receivables. The amount of receivable collections in each aging 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 collectable, an allowance for uncollectible accounts would reflect 25 percent of the total receivables balance.

4 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.

Receivables with the Public Non-Entity (OSM) Assets

(dollars in thousands)

	Gross A/R	Allowance for Uncollectible Accounts Beginning Balance	Additions	Reductions	Ending Balance	1998 Net A/R	1997 Net A/R
Interest Receivable:							
Civil Penalty Other	$1,284	$444	$1,713	($899)	$1,258	$26	$1,481
Administrative Other	17	0	0	0	0	17	45
Total Receivables	$1,301	$444	$1,713	($899)	$1,258	$43	$1,526

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 $5 thousand or more and the estimated useful life is two years or longer. However, 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 useful life is determined using General Services Administration guidance. Property, Plant and Equipment is noted as “other” business segment.

Physical Assets
(dollars in thousands)

	Service Life	Acquisition Value	Accumulated Depreciation	FY 1998 Book Value	FY 1997 Book Value
ADP Equipment	15	$5,800	($2,536)	**$3,264**	$3,534
Office Equipment	11-20	1,637	(521)	**1,116**	1,052
Vehicles	6-10	3,078	(1,901)	**1,177**	963
Total Physical Assets		$10,515	($4,958)	**$5,557**	$5,549

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; (6) Overpayments - excess AML fee payments due to be refunded or returned to Treasury.

Amounts Held for Others
(dollars in thousands)

	1998 Total	1997 Total
Reimbursable Advance	**$1,409**	$1,171
Other Escrows	**92**	209
Civil Penalties Escrow	**125**	108
Bonds	**10**	10
Other Deposits	**254**	(2)
Overpayments	**109**	120
Total Amounts Held for Others	**$1,999**	$1,616

Note 7. Unexpended Appropriations and 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)

	1998	1997
Invested Capital	**$5,557**	$5,549
Future Funding Requirements	**(24,476)**	(4,457)
Cumulative Results of Operations	**1,285,848**	1,142,939
Total Cumulative Results of Operations	**$1,266,929**	$1,144,031

Note 8. Net Position:

Net Position

(dollars in thousands)

	1998 Total	1997 Total
Unexpended Appropriations:		
Unobligated		
Available	**$43,840**	$46,209
Unavailable	**10,681**	14,497
Undelivered Orders	**267,545**	285,555
Unfilled Customer Orders	**(1,339)**	(664)
Total Unexpended Appropriations	**320,727**	345,597
Cumulative Results of Operations	**1,266,929**	1,144,031
Total Net Position	**$1,587,656**	$1,489,628

Note 9. UMWACBF Transfers:

Presently, all earnings from AML investments are reinvested, thus providing a source of continuous funding to further 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 invested 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.

UMWACBF Transfers

(dollars in thousands)

	1998 Total	1997 Total
Beneficiary Transfer	**$32,562**	$31,373
Total Number of Beneficiaries	**6,510**	7,000

Note 10. Intragovernmental Costs (Costs Within the Government):

Intragovernmental Costs

(dollars in thousands)

	1998 Total	1997 Total
Department of the Interior:		
Bureau of Reclamation	**$170**	$286
Bureau of Land Management	**7**	22
Minerals Management Service	**37**	54
National Park Service	**11**	2
Office of the Secretary	**2,736**	2,667
Bureau of Mines	**2**	0
U.S. Geological Survey (USGS)	**52**	0
Total, Department of Interior	**3,015**	3,031
Other Federal Agencies:		
Environmental Protection Agency	**0**	108
General Services Administration	**4,358**	3,437
U.S. Treasury	**9**	9
Government Printing Office	**284**	278
Department of State	0	217
Other	**4,402**	4,453
Total, Other Federal Agencies	**9,053**	8,502
Depreciation Expense	**961**	912
Total Costs within the Government	**$13,029**	$12,445

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)

	1998 Total	1997 Total
Within the Government:		
Bureau of Indian Affairs	**$1,292**	$1,124
Bureau of Land Management	**62**	60
Fish and Wildlife Service	**0**	8
Minerals Management Service	**10**	6
Office of the Secretary - DOI	**22**	27
Office of Navajo/Hopi Indian Relocation	**0**	5
Office of the Solicitor - DO	**0**	7
Food and Drug Administration	**0**	25
Environmental Protection Agency	**21**	50
Department of Energy	**2**	0
Department of State	**31**	0
General Services Administration - Vehicles	**0**	15
Internal Revenue Service	**48**	97
Total Within the Government	**1,488**	1,424
With the Public:		
Bond Forfeitures	**51**	20
California	**0**	0
Indonesia	**586**	723
Kentucky	**6**	73
Pennsylvania	**19**	0
Miscellaneous	**1,128**	6
Total With the Public	**1,790**	822
Total Earned Revenue	**$3,278**	$2,246

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. The increase of $20 million to the contingent liabilities is in regards to a court case orginally obligated in FY97 that had an increase in FY98.

Future Funding Requirements
(dollars in thousands)

	1998	1997
Accrued Unfunded Leave	**($100)**	($1)
FECA	**119**	13
Contingent Liabilities	**20,438**	0
Total Future Funding Requirements	**$20,457**	$12

Note 13. Other Revenues and Financing Sources:

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

Other Revenues and Financing Sources
(dollars in thousands)

	1998	1997
Administrative Revenue from AML fees	**$707**	$1,117
Civil Penalty Revenue	**(1,253)**	(8,406)
Total Other Revenues and Financing Sources	**($546)**	($7,289)

Note 14. Invested Capital Adjustments and Other Changes:

Invested Capital Adjustments and Other Changes
(dollars in thousands)

	1998	1997
Restatement of Assets	**($266)**	$255
Net Transfers Out	**0**	(182)
Net Transfers In	**0**	0
Loss on Disposal of Assets	**(111)**	(29)
Reclassification of Object Class Codes	**0**	(26)
Total Invested Capital Adjustments and Other Changes	**($377)**	$18

Note: The Transfers In/Transfers Out are reflected in the Statement of Changes in Net Position under Net Cost of Operations, Financing Sources for fiscal year 1998.

Note 15. Prior Period Adjustments:

Prior Period Adjustments
(dollars in thousands)

	1998	1997
Reclassification of civil penalty debt for changes and/or corrections to prior year accounts receivables for individual circumstances.	**$1,007**	$0
Reclassification of AML Fee Billing and Collections for changes and/or corrections to prior year accounts receivables for individual circumstances.	**(4,955)**	0
Reclassification of Audited Fee Billing and Collections for changes and/or corrections to prior year accounts receivables for individual circumstances.	**(1,598)**	0
Recording of FECA actuarial liability for differences between FY97 and FY98. Direction given at the Department level for the entry.	**(1,622)**	
Implementation of new accounting policy to include liabilities for loss contingencies related to OSM activities which will be paid from Treasury's Judgment Fund.	**0**	(90,200)
Changes to prior year revenue based on enhancements to the AML fee collection system which allows for the determination of revenue as an adjustment to prior year as well as current year business.	**0**	(7,601)
Reversals of prior year accounts receivable based on a reversal of coal weight determination effective June 23, 1997, and new documentation produced by debtor companies.	**0**	(14,035)
Changes to prior year cash and revenue based on enhancements to the subsidiary accounting system to accurately reflect cash balances and post-judgment interest.	**0**	3,520
Total Prior Period Adjustment	**($7,168)**	($108,316)

Note 16. Change in Unexpended Appropriations:

Change in Unexpended Appropriations
(dollars in thousands)

	1998	1997
Unobligated Balance	**($6,186)**	($8,336)
Unliquidated Obligations:		
Undelivered Orders	**(18,009)**	(7,463)
Unfilled Customer Orders	**(675)**	101
Change in Unexpended Appropriations	**($24,870)**	($15,698)

Note 17. Expired Unobligated Balances, Beginning of Year:

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 $10.6 million.

Note 18. 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 exist no asserted or unasserted claims, or closely related group of claims, against OSM's funds which have not been recorded as a payable. There are, however, claims against the Department of Justice's Judgment Fund related to OSM activities. These claims have been recorded by OSM as a contingent liability. Any claims paid as a result of a decision for the plaintiff will be borne by the Judgment Fund. Contingent liabilities which have a greater than 50 percent possibility of being paid to the plaintiff from the Judgment Fund have been estimated to be no larger than $112.3 million. The $20 million increase occurred in relation to a case that was orginated in FY97 and an increase of this amount was necessary to cover the case.

Prior to 1997, Department of the Interior agencies did not report Judgment Fund contingent liabilities. Because of new guidance issued by the Federal Accounting Standards Advisory Board, effective in 1997, these liabilities will now be reported. This will allow each agency to accurately reflect all lawsuits against the Federal Government relating to that agency's operations.

Note 19. Abandoned Mine Land Fund Restricted Balance:

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 1998 and 1997 are detailed below:

Abandoned Mine Land Restricted Balance

(dollars in thousands)

	1998	1997
Beginning Balance	**$1,221,681**	$1,082,350
Add: Fee Collections	**273,039**	266,783
Add: Investment Interest	**67,031**	81,006
Less: Appropriations	**(177,624)**	(177,085)
Less: Transfers Out	**(32,562)**	(31,373)
Ending Balance	**$1,351,565**	$1,221,681

Note: Please refer to Note 2 for further information on restricted and unrestricted asset balances.

Note 20. Assigned Retirement and Post-Employment Benefits Cost

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 will now be reported and recorded. This will allow 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 Cost	1998 Assigned Cost
Civil Service Retirement System Pensions	$23,331	10.20%	**$2,380**
Civil Service Retirement System Offset Pensions	1,883	11.50%	**217**
FERS and FICA	10,497	0.10%	**10**
Retirement Life Insurance	28,713	0.02%	**5**
Retirement Health Benefits	563 employees (yearly average) multiplied by $2,529.00 per employee		**1,424**
Total Assigned Benefits Cost			**$4,036**

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

Note 21. Primary Financial Statements

There are five primary financial statements - the Statement of Financial Position, the Statement of Net Cost, the Statement of Changes in Net Position, Statement of Budgetary Resources, and the Statement of Financing. These statements precede the footnotes except for the Statement of Financing, which is located on page 64. This statement was placed after the footnotes because it does not show comparative information.

OFFICE OF SURFACE MINING
RECLAMATION AND ENFORCEMENT

Fiscal Year 1998 Financial Statements
and
Accompanying Footnotes
Prepared in accordance with
Federal Accounting Standards Advisory Board Guidance

SUPPLEMENTAL STATEMENT OF NET COST
For the Year Ended September 30, 1998
(dollars in thousands)

Responsibility Segment Costs:	
Environmental Restoration	
Total Costs	191,443
Less Earned Revenue	(1,398)
Net Environmental Restoration Costs	190,045
Environmental Protection	
Total Costs	$81,311
Less Earned Revenue	(916)
Net Environmental Protection Costs	80,395
Technology Development and Transfer	
Total Costs	18,526
Less Earned Revenue	(859)
Net Technology Development and Transfer Costs	17,667
Financial Management	
Total Costs	7,948
Less Earned Revenue	(105)
Net Financial Management Costs	7,843
Net Responsibility Segment Costs	295,950
Costs not allocated to responsibility segments:	
Future Funding Requirements	20,457
UMWA Combined Benefit Fund Transfer	32,562
Miscellaneous Bad Debt Expense	1,714
Total Unallocated Costs	54,733
Less Earned Revenue	(288)
Net Unallocated Costs	54,445
Net Cost of Opeartions	$350,395

SUPPLEMENTAL STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 1998

(dollars in thousands)

	Combined	Environmental Protection	Environmental Restoration	Technology Dev and Trsf	Financial Mgmt	Other
Net Cost of Operations	350,395	80,395	190,045	17,667	7,843	54,445
Less Financing Sources:						
Appropriations Used	324,875	80,034	189,792	17,320	7,612	30,117
AML Interest, Non-Federal	370	0	0	0	370	0
Investment Interest Earned, Federal	82,729	0	0	0	82,729	0
Revenue from Fees Assessed	278,392	0	0	0	278,392	0
Other Revenues and Financing Sources (Note 13)	(546)	0	0	0	(546)	0
Imputed Financing Sources (Note 20)	4,036	0	0	0	0	4,036
Appropriated Revenues	(210,382)	0	0	0	(210,382)	0
Financing Sources Transferred-Out	1,379	0	0	0	0	1,379
Transfers In / Transfers Out	(15)	0	0	0	0	(15)
Net Results of Operations	130,443	(361)	(253)	(347)	150,332	(18,928)
Invested Capital - Adjustments and Other Changes (Note 14)	(377)	(361)	(253)	(347)	(231)	815
Prior Period Adjustments (Note 15)	(7,168)	0	0	0	(5,595)	(1,573)
Net Change in Cumulative Results of Operations	122,898	(722)	(506)	(694)	144,506	(19,686)
Change in Unexpended Appropriations (Note 16)	(24,870)	N/A	N/A	N/A	N/A	N/A
Change in Net Position	98,028	N/A	N/A	N/A	N/A	N/A
Net Position- Beginning of Period	1,489,628	N/A	N/A	N/A	N/A	N/A
Net Position End of Period (Note 8)	1,587,656	N/A	N/A	N/A	N/A	N/A

Net Results of Operations represents the balance of Financing Sources greater than the Net Cost of Operations.

N/A Indicates information is not available.

CONSOLIDATED STATEMENT OF FINANCING
FOR THE YEAR ENDED SEPTEMBER 30,

(In Thousand)

	1998
Obligations and Nonbudgetary Resources	
Obligations Incurred	358,312
Less: Spending Authority for Offsetting Collections and Other Budgetary Adjustments	(685)
Donations not in the Budget	0
Financing Imputed for Cost Subsidies	0
Transfer-In (Out)	0
Less: Exchange Revenue not in the Budget	(288)
Other	0
Total Obligations as Adjusted, and Nonbudgetary Resources	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	(33,232)
Cost Capitalized on the Balance Sheet	(880)
Financing Sources That Fund Costs of Prior Periods	0
Other	0
Total Resources That do not Fund Net Cost of Operations	(34,112)
Costs That Do Not Require Resources	
Depreciation and Amortization	962
Revaluation of Assets and Liabilities	24,493
Other	1,713
Total Costs That do not Require Resources	27,168
Financing Sources Yet to be Provided	0
Net Cost of Operations	$ 350,395

December 18, 1998

Memorandum

To: Eljay Bowron
Office of the Inspector General, Inspector General

From: Robert J. Ewing
Office of Surface Mining, Chief Financial Officer

Subject: Management Representations for the Department of the Interior (DOI) Fiscal Year 1998 Consolidated Financial Statements

With respect to the Office of Surface Mining:

1. We are responsible for the presentation in the financial statements and supplemental reports 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 Office of Management and Budget (OMB) concerning noncompliance with or deficiencies in financial reporting practices.

5. There are no material 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 material intra-bureau transactions.

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

8. We are not aware of any irregularities involving management, employees who have significant roles in the internal control structure, or other employees, which could have a material effect on the financial statements. We are also not aware of any material fraud on the government by recipients of Federal financial assistance or other Federal payments.

9. There have been no communications from regulatory agencies or oversight agencies, such as the OMB, the Department of the Treasury, and the United States General Accounting Office (GAO), concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.

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

11. Where material, accounts receivable have been reduced to their respective estimated net realizable values.

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 as defined in 43 U.S.C. §1702(e), and other Federal lands and interests in land. Accordingly, except as disclosed in the Notes to the Bureau's Financial Statements, the Bureau, 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. We are not aware of any violation of law or regulation whose effect should be considered as material and disclosed int he Bureau's financial statements or as a basis for recording a loss contingency.

14. There are no 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 GAO audit reports.

15. There are no unasserted claims or assessments that are probable of assertion and must be disclosed in accordance with Federal accounting standards, except as discussed with the auditors and disclosed in the Notes to the financial statements.

16. We are responsible for establishing and maintaining internal control.

17. Pursuant to the Federal Managers Financial Integrity Act, we have assessed the effectiveness of the Bureau's internal control 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 statement, and (ii) any other laws, regulations, and government wide 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.

18. Those controls in place on September 30, 1998 provided reasonable assurance that the foregoing objectives are met.

19. 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 United States Government Standard General Ledger (SGL) at the transaction level.

20. 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.

21. The financial management systems complied substantially with the Federal financial management systems requirements, applicable Federal accounting standards, and the SGL at the transaction level as of December 18, 1998.

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

23. To the best of our knowledge, 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.

24. To the best of our knowledge, we have disclosed to you all known instances of noncompliance with laws and regulations.

25. No events have occurred subsequent to September 30, 1998, 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) 208-2546.

C-IN-OSM-001-98-M

United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

FEB - 4 1999

AUDITORS REPORT

Memorandum

To: Director, Office of Surface Mining Reclamation and Enforcement

Subject: Auditors Report on Office of Surface Mining Reclamation and Enforcement Financial Statements for Fiscal Years 1998 and 1997 (No. 99-I-245)

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SUMMARY

In our audit of the Office of Surface Mining Reclamation and Enforcement's financial statements for fiscal year 1998, we found the following:

- The financial statements were fairly presented in all material respects.

- Our tests of the internal controls over financial reporting and compliance identified no reportable weaknesses or conditions.

- Our tests of compliance with laws and regulations identified no instances of noncompliance that are required to be reported.

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 the Office of Surface Mining Reclamation and Enforcement's financial statements for the fiscal years ended September 30, 1998, and 1997, and the Statement of Financing for the fiscal year ended September 30, 1998, as contained in the Office of Surface Mining's accompanying "1998 Annual Report." These financial statements are the responsibility of the Office of Surface Mining, and our responsibility is to express an opinion, based on our audit, on these 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," and was completed on December 18, 1998. These audit standards require that we plan and perform the audit to obtain reasonable assurance as to whether the accompanying 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 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.

In our opinion, the Consolidated Statements of Financial Position, Net Cost, Changes in Net Position, and Budgetary Resources present fairly, in all material respects, the financial position of the Office of Surface Mining as of September 30, 1998, and 1997, and its consolidated net cost, changes in net position, budgetary resources, and outlays on the basis of accounting described in Note 1 of the financial statements. The Supplemental Statements of Net Cost and Changes in Net Position and the Consolidated Statement of Financing for fiscal year 1998, which follow the notes to the consolidated financial statements, 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 financial statements taken as a whole.

REPORT ON INTERNAL CONTROLS

Management of the Office of Surface Mining Reclamation and Enforcement 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 statements 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 (2) any other laws, regulations, and Governmentwide policies identified by the Office of Management and Budget.

Because of inherent limitations in any internal control structure, errors or fraud may occur and not be detected. Also, projections 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.

We did not review the internal controls related to the transactions and other data that support the reported performance measures to determine whether transactions were properly recorded, processed, and summarized in accordance with the criteria stated by management.

In planning and performing our audit, we obtained an understanding of the relevant internal control policies and procedures, 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 financial statements and not to express assurance on the internal controls over financial reporting. Consequently, we do not express an opinion on internal controls. We also reviewed the Office of Surface Mining's most recent report required by the Federal Managers' Financial Integrity Act of 1982 and compared it with the results of our evaluation of the Office of Surface Mining's internal control structure.

Our consideration of the internal controls over financial reporting and compliance 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 the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the 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.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

The management of the Office of Surface Mining Reclamation and Enforcement is responsible for complying with laws and regulations applicable to that agency. As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of the Office of Surface Mining'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 Office of Surface Mining's financial management systems substantially comply 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. The results of our test disclosed no instances in which the Office of Surface Mining's financial management system did not substantially comply with these three requirements.

CONSISTENCY OF OTHER INFORMATION

We reviewed the financial information presented in the Office of Surface Mining Reclamation and Enforcement's overview to determine whether the information was consistent with the financial statements. Based on our review, we determined that the information in the overview was consistent with information in the financial statements.

PRIOR AUDIT COVERAGE

Our review of prior Office of Inspector General and General Accounting Office audit reports disclosed that there were no significant unresolved or unimplemented recommendations which affected the Office of Surface Mining Reclamation and Enforcement's financial statements.

OBJECTIVE, SCOPE, AND METHODOLOGY

Management of the Office of Surface Mining Reclamation and Enforcement is responsible for the following:

- Preparing the 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 "1998 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 the Office of Surface Mining's principal financial statements.

- Obtaining reasonable assurance that management's assertion regarding the effectiveness of the internal controls is fairly stated in all material respects, 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, and that assets are safeguarded against loss from unauthorized acquisition, use, or disposal.

- Testing the Office of Surface Mining's compliance with selected provisions of laws and regulations that could materially affect the principal statements or the required supplemental information.

In order to fulfill these responsibilities, we performed 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.

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- 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; and financial reporting.

- Tested relevant internal controls over the safeguarding of assets, compliance with laws and regulations, and financial reporting and evaluated management's assertion about the effectiveness of internal controls.

- 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.

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

Robert J. Williams

Robert J. Williams
Assistant Inspector General
for Audits