U.S. Department of the Interior
Office of Surface Mining

Accountability Report

Fiscal year 2000

The Office of Surface Mining is a bureau of the U.S. Department of the Interior with responsibility, in cooperation with the states and Indian Tribes, to protect citizens and the environment during coal mining and reclamation, and to reclaim mines abandoned before 1977.

TABLE OF CONTENTS

Message from the Acting Director and Chief Financial Officer

I am pleased to present OSM's Accountability Report for Fiscal Year (FY) 2000. The Report provides a thorough description of OSM's program performance and financial accountability in meeting its mission and strategic goals. The Report also provides information on OSM's progress in meeting those goals and demonstrates our commitment in administering our programs.

During FY 2000, OSM made great strides in addressing several high priorities: increasing funds available for more abandoned mine reclamation; assuring program integrity; providing responsive service to the public; meeting our obligations to the United Mine Workers of America Combined Benefit Fund; strengthening our long term planning and improving our policy making process. We continue to actively educate the public on the mission and programs at OSM.

I am very pleased to report that this is the tenth consecutive "clean" audit opinion. This demonstrates that OSM is accountable and assures the Department, Congress and the Office of Management and Budget that we can manage the resources provided us for carrying out our mission. In addition, the Office of Inspector General found that we comply in all material respects with accounting and internal control objectives. The auditors did find a reportable condition in FY 1999 involving the general and application controls over automated information systems. OSM corrected this issue in FY2000.

OSM was at the forefront of addressing Year 2000 computer issues. We were the first agency at the Department of the Interior to become Year 2000 compliant. This was not an easy task. But it was one accomplished because of the hard work, long hours, and dedication of a team of OSM employees.

FY 2000 brought increased funding for abandoned mine reclamation. The states and tribes had nearly eleven million more dollars to use for this vital work. More streams are being treated to combat the effects of past mining and more land is being put back into productive use for recreation, economic development, and community enjoyment. The Watershed Cooperative Agreement Program, begun in FY 99, more than doubled in size during this past year. This increase means that local not-for-profit organizations are leveraging funds from many sources in order to restore abandoned mine lands and make their communities better places to live. In addition, OSM is actively seeking partners to plant trees on abandoned mine lands. Our reforestation initiative has the dual effect of better reclamation and increased opportunities for carbon sequestration.

During the past twenty-three years, OSM has made a difference in the lives of citizens in the nation's coalfields. We have set ambitious goals for the future, and we will work hard to achieve them. OSM is prepared to meet the challenges we face and serve the American people as responsible stewards of this public trust.

Glenda Owens,
Acting Director

The Office of Surface Mining Reclamation and Enforcement (OSM) was one of the first Department of Interior Bureaus to combine the Annual Report with the audited financial statements. For fiscal year 2000, we are issuing an Annual Report and a separate Accountability Report because the two reports have different purposes and audiences. The Accountability Report consolidates the mandatory reporting requirements of various statutes and summarizes OSM's program accomplishments and its stewardship over budget and financial resources.

OSM is reporting on two primary mission goals, Environmental Restoration and Environmental Protection, and one statutory requirement to transfer money to the United Mine Workers of America Combined Benefit Fund. This year's Accountability Report includes performance reporting for two mission goals and identification of costs for one goal. OSM continues to encourage partnership participation with the states and tribes. This strategy lowers federal surface mining program costs by leveraging federal funds with contributions from state and local sources, community groups, and non-profit organizations.

I appreciate the dedication and professionalism of OSM employees, both programmatic and financial, who have worked to make our operations a success. I especially appreciate the teamwork of the financial management staff and field office personnel who perform the budgeting and accounting work throughout the year in order to achieve the "clean" audit opinions.

Robert Ewing,
Chief Financial Officer

This report describes the operations of the Interior Department's Office of Surface Mining (OSM) for the period October 1, 1999, through September 30, 2000 (Fiscal Year 2000). This Accountability Report was compiled to meet the specific requirement of Section 306 of the Chief Financial Officers Act of 1990. A separate Annual Report to Congress contains details about the programs and information describing the operation of the Office of Surface Mining to meet the requirements of Section 706 of the Surface Mining Law.

This report includes financial accounting for activities carried out under several parts of the Law: Title IV, Abandoned Mine Reclamation; Title V, Control of the Environmental Impacts of Surface Coal Mining; and Title VII, Administrative and Miscellaneous Provisions. Surface Mining Law responsibilities of other bureaus and agencies have been omitted. These responsibilities include Title III, State Mining and Mineral Resources and Research Institutes program, which was administered by the now abolished U.S. Bureau of Mines; Titles VIII and IX, the University Coal Research Laboratories and the Energy Resources Graduate Fellowships, which are administered by the Secretary of Energy, and Section 406, the Rural Abandoned Mine Program (RAMP), which is administered by the Secretary of Agriculture. Financial information about those activities is reported directly to Congress by the agencies responsible for them.

The Inspector General's audit statement which gives the Office of Surface Mining a "clean" audit opinion for its FY 2000 financial reporting – the tenth consecutive year – is also included in this report.

For information about Office of Surface Mining activities, news releases, and publications, and for copies of the Annual Report to Congress, visit the Office of Surface Mining web site at www.osmre.gov or contact:

Office of Communications
Office of Surface Mining
1951 Constitution Ave., N.W.
Washington, D.C. 20240
www.osmre.gov
(202)208-2719
e-mail: getinfo@osmre.gov

The Office of Surface Mining was established with the signing of the Surface Mining Control and Reclamation Act (SMCRA) of 1977, Public Law 95-87, August 3, 1977.

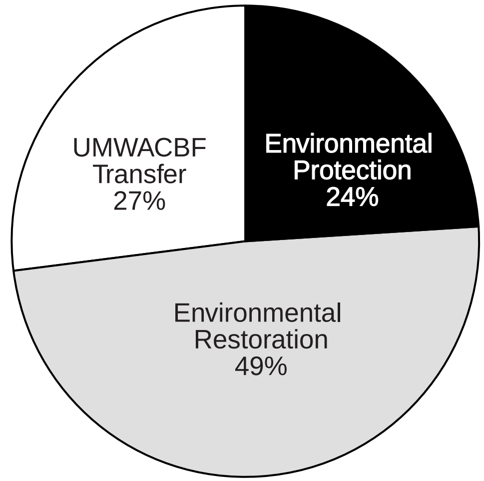
The Office of Surface Mining's mandates are carried out primarily through grants and cooperative agreements with states and tribes that implement regulatory and reclamation programs in accordance with standards in the Surface Mining Law and its implementing regulations. When the Law was enacted and the Office of Surface Mining subsequently established, a unified level of environmental performance standards was created for the coal industry. Residents of coalfield communities were to be protected from the negative safety, health, and environmental effects of coal mining.

Currently, 24 states have "primacy," or approved State regulatory programs. Each state program includes key elements such as permitting and bonding requirements, on-the-ground performance standards which mining operations must meet, mine inspection and enforcement requirements, and procedures for designating lands as unsuitable for mining. In primacy states, the Office of Surface Mining's mission is oversight. OSM provides financial, programmatic, and technical assistance to the states.

In the absence of a state program or a cooperative agreement with a state to regulate mining on federal lands, the Office of Surface Mining serves as the regulatory authority. The Office of Surface Mining also provides funds to Tribes to develop regulatory programs on Indian lands.

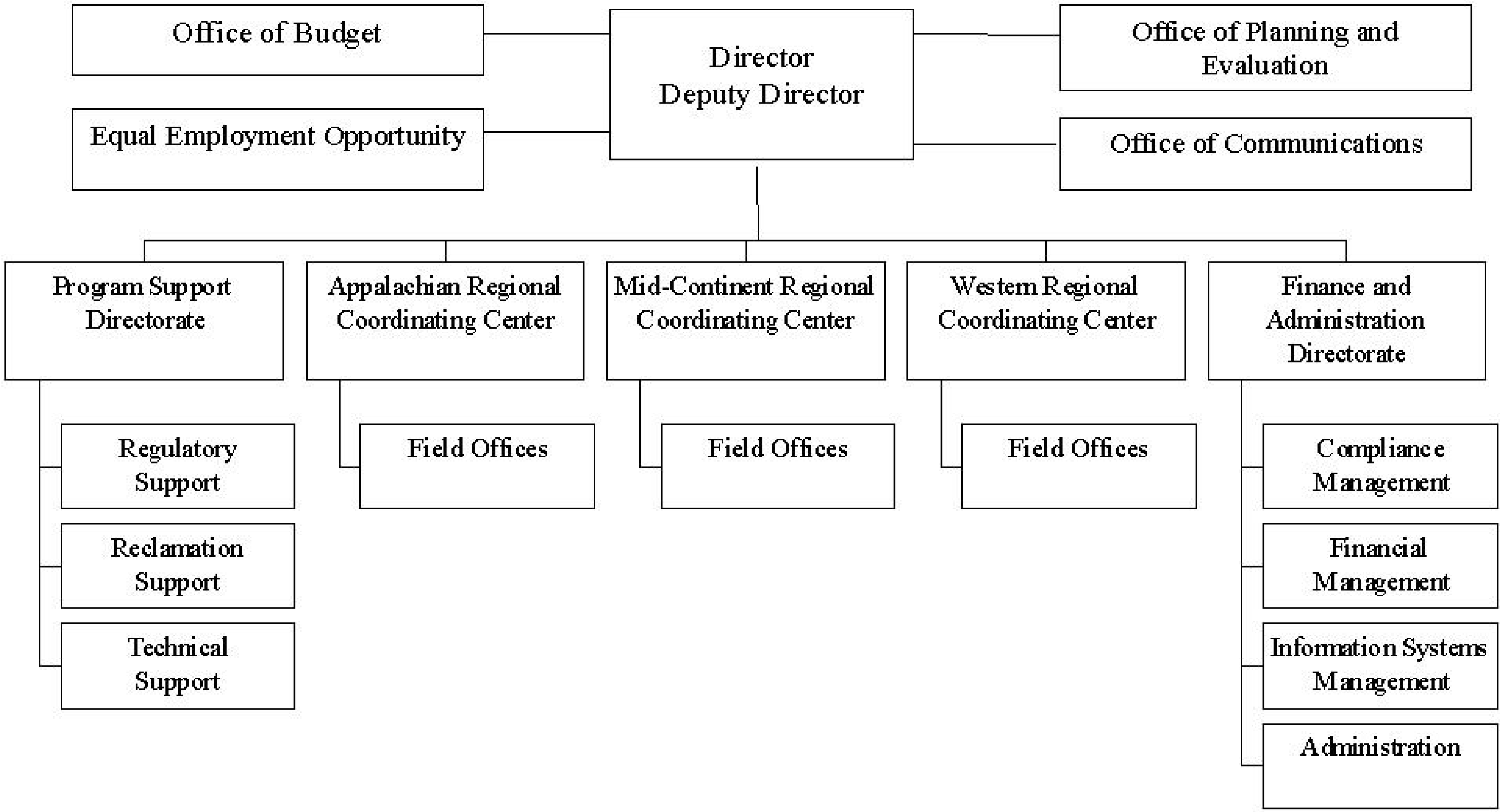
The Surface Mining Law provides the means for restoring abandoned coal mines by establishing the Abandoned Mine Reclamation Fund. The Fund is based on the collection of a reclamation fee assessed on current coal production. Each year, Congress appropriates monies from the Fund which are used primarily by 23 Abandoned Mine Land program states and three Indian programs for on-the-ground reclamation projects. Through these projects, safety hazards are removed, highwalls eliminated, and causes of water and air pollution are treated or eliminated. Additionally, monies are used to fund federal and state Abandoned Mine Land programs aimed at addressing emergency situations; for example, subsidence and landslides and the damages these events cause to people and property. The Office of Surface Mining conducts similar activities in non-program states and on federal and other Indian lands. For states and Indian tribes having approved Abandoned Mine Land programs, the Office of Surface Mining conducts oversight activities and provides programmatic and technical assistance to the states and tribes.

The Office of Surface Mining is field-oriented, with headquarters in Washington, D.C., three regional coordinating centers, ten field offices, and six area offices. The budget is structured into two appropriations: Abandoned Mine Reclamation and Regulation and Technology. The two appropriations include the Office of Surface Mining's major functions, reclamation of abandoned mine land (Environmental Restoration), and regulation of active coal mining and reclamation (Environmental Protection).



Office of Surface Mining 2000 Budget Authority

Office of Surface Mining Reclamation and Enforcement



Mission

Our mission is to carry out the requirements of the Surface Mining Law in cooperation with states and tribes. Our primary objectives are to ensure that coal mines are operated in a manner that protects citizens and the environment during mining and assures that the land is restored to beneficial use following mining, and to mitigate the effects of past mining by aggressively pursuing reclamation of abandoned coal mines.

Vision

In regulating active coal mining, we will maintain compliance at high levels and ensure that all mines are properly operated and promptly reclaimed to the standards established under the Law. We will emphasize prevention and ensure that long- term environmental problems do not occur. We will ensure that the pre-mining productivity of the land is restored.

In reclaiming abandoned mine lands, we will aggressively pursue reclamation with a primary emphasis on correcting the most serious problems related to public health, safety, and the general welfare. We will ensure maximum public benefit through the prompt and fair distribution of public funds.

In cooperating with state regulatory authorities, the primary enforcers of the Surface Mining Law, and with tribes, we will promote a shared commitment to the goals of the Law. We will develop a comprehensive understanding of the fairness, effectiveness, and efficiency of the Surface Mining Law programs. We will provide constructive program reviews, oversight monitoring, and technical assistance that focus on results. We will act independently to protect the public interest in situations of imminent harm or when a state does not implement an approved regulatory program.

In dealing with those who are affected by mining and reclamation, we will ensure the protection of citizens from abusive mining practices, be responsive to their concerns, and allow them full access to information needed to evaluate the effect of mining on their health, safety, general welfare, and property.

In our relations with the coal industry, we will have clear, fair, and consistently applied policies and will respect the importance of coal production as a source of our Nation's energy supply.

In all communications, we will maintain open, courteous, constructive, and timely dialogue and will use information to understand and improve our programs and those of our state and tribal partners.

In demonstrating leadership in mining and reclamation, we will promote the development of the highest quality technical information and research and will seek the transfer of technology to those who would benefit.

In meeting our responsibilities, we will be a diverse, competent, innovative, and highly-trained work force. We will serve with integrity, and demonstrate technical, legal, administrative, and professional excellence at all times. We will constantly strive to create a more responsive, efficient, and effective process for achieving the objectives of the Surface Mining Law.

The Office of Surface Mining (OSM) has followed the criteria of the Government Performance and Results Act of 1993 (GPRA), the Office of Management and Budget (OMB) guidelines and the Department of the Interior's guidance in implementing its planning and management processes. OSM is recognized by the Department of the Interior as one of the lead bureaus in implementing planning processes and establishing financial integrity.

The Office of Surface Mining developed a mission statement reflective of the mandate of the Surface Mining Control and Reclamation Act of 1977 and a vision statement reflective of values, service and assistance afforded to its customers, stakeholders and partners. The mission statement reflects OSM's mandate to reclaim abandoned mine lands and provide safety for the environment and society during current mining activities, and the subsequent reclamation of those lands. The vision statement reflects the commitment and strategies of OSM in providing equitable and fair treatment to all of its customers and stakeholders in carrying out its mission.

An obvious outgrowth from the mission statement was OSM's two results-oriented mission goals, whose outcomes indicate the mandate of Environmental Restoration (restoring and reclaiming as much land and water as possible from past mining lands that have been abandoned) and Environmental Protection (ensuring that the environment and society are protected during current mining activities). OSM's mission and goals also support the Department of the Interior's goal of "Protecting the Environment and Preserving our Natural and Cultural Resources."

OSM then developed "business lines" in support of the mission, vision and goals that it identified. These business lines are the core activities the organization does to accomplish its mission. The two primary business lines, Environmental Restoration and Environmental Protection, are directly linked to OSM's goals. The three remaining business lines: Technology Development and Transfer, Financial Management, and Executive Direction, support the two primary business lines by providing the infrastructure of the organization. These business lines became the basis for restructuring OSM's budget, allocation and funding of OSM's activities. In addition, OSM implemented a cost accounting system to account for the work performed and funds expended in these business lines.

Progress in developing, implementing and evaluating a planning process in OSM has been an evolving exercise. The greatest impediment is instituting a culture change within the organization. OSM's planning process has followed acceptable, recognized guidelines for key steps and critical practices for implementation:

Define Mission and Desired Outcomes

OSM defined its mission, vision and desired outcomes through consensus of its management council in conjunction with coordinated efforts from its customers and stakeholders. OSM has held numerous public meetings with its partners, the states and tribes, with whom it carries out the mandates of the Act and the mission of the program. Agreed upon goals and measures have been established through these coordination meetings. The Environmental Protection goal and measures of off-site impacts and bond released land were established as the best indicators for this goal through these coordination efforts. The States are the primary data source for the measure of acres reclaimed for the goal under Environmental Restoration.

OSM has aligned its business lines, program activities, core processes, and resources through its budget structure, allocation process, and cost accounting system.

Measure Performance

OSM has developed goals and measures at every level of the organization. Through the Strategic and Annual Performance Plans, mission goals, and long-term goals, OSM established performance measures to indicate progress toward results-oriented outcomes. OSM developed internal directorate and office plans to measure the activities to support the mission goals and maintain the infrastructure. OSM collects data in support of the measures and reports its success or shortcomings through Annual Performance Reports.

Use Performance Information
OSM intends for its performance information to be used in decision-making, issue identification, problem-solving and re-evaluation of critical processes in reaching the desired outcomes of the organization. The establishment of reliable, verifiable and accurate data and systems has been, and continues to be, a priority.

Reinforce Planning Implementation
Immediate efforts to reinforce implementation of its planning process has been/or will require:

- establishing a National Planning Group made up of managers and staff of OSM;
- establishing Directorate Planning Teams;
- developing individual performance plans for employees; and
- educating/training program managers in the need and advantages of cost accounting.

The planning process is an ever-evolving cycle that OSM will continually attempt to improve in order to provide itself with the best indicators and tools to carry out its mission and to provide the best service and assistance to its customers and stakeholders.

Sources of Funds for Fiscal Year 2000

Appropriations

- Regulation and Technology. This appropriation finances the regulatory functions of the Surface Mining Law as administered by the states and tribes and Office of Surface Mining. Federal activities related to the administration and monitoring of state regulatory programs and the Office of Surface Mining's technical training, assistance, and transfer activities related to environmental protection are also financed by the appropriation. The total FY 2000 approriation for Regulation and Technology was $95.6 million from the General Funds of Treasury to fund the Environmental Protection program.

- An additional $9.8 million was made available from the General Fund for the West Virginia regulatory program via Public Law 106-246. These funds are available until expended.

- Abandoned Mine Reclamation Fund. This appropriation supports the reclamation program functions carried out by the states and tribes and Office of Surface Mining. The Fund is derived from a fee levied on coal production sales, use, and transfers. The bulk of the appropriation finances grants to states to implement reclamation programs. The Fund also supports federal administration and monitoring of state programs, as well as, Office of Surace Mining's technical training, assistance, and transfer activities related to environmental reclamation including the Small Operator Assistance Program. The total appropriation for the Environmental Restoration Program in FY 2000 was $195.9 million from the Fund.

Receipts (Subject to appropriation)

The Office of Surface Mining is authorized by appropriation language each fiscal year to utilize all of the federal civil penalties collected under Section 518 of SMCRA to reclaim lands mined and abandoned after passage of SMCRA (August 3, 1977). Civil penalty collections vary. A budget estimate is included in OSM's budget justification to Congress each year. The total budget authority from prior year (FY 1999) and current year (FY 2000) available for obligation in FY 2000 was $228,088.

Offsetting Collections (Not subject to appropriation)

Forfeited reclamation bonds on Federal and Indian lands are authorized by appropriation language each fiscal year for the reclamation of orphaned lands. The value of forfeited bonds authorized is an indefinite amount not to exceed the actual amounts forfeited in current and prior years and is available until spent for the reclamation of specific sites. In FY 2000, $1.1 million was available for this program.

Interest

The Abandoned Mine Reclamation Act of 1990, PL 101-508, authorized the United States Treasury to pay interest on the Abandoned Mine Reclamation Fund. The Energy Policy Act of 1992, PL 102-486, authorized the transfer of interest earned on the Abandoned Mine Reclamation Fund to the United Mine Workers of America Combined Benefit Fund (CBF) to defray the annual cost of providing continued health benefits to unassigned, retired coal miners and their dependents. In FY 2000, $109 million was transferred including adjustments for prior years.

Donations

In the FY 1999 appropriation, OSM was thereafter authorized to receive and utilize donations under the Clean Streams Initiative and the Western Mine Land Restoration Partnerships without further appropriation for the purposes of these programs. In FY 2000, $600 was available for this purpose. Of this, $500 was donated in FY 2000.

Description

The Abandoned Mine Land Program provides for the restoration of eligible lands mined and abandoned or left inadequately restored before passage of the Surface Mining Law.

Fees of 35 cents per ton of surface mined coal, 15 cents per ton for coal mined underground, and 10 cents per ton of lignite mined are collected on all active coal mining operations. The fees are deposited in the U.S. Treasury's interest-bearing Abandoned Mine Reclamation Fund. These fees are then used to pay reclamation costs of AML projects. Expenditures from the fund are controlled through the regular congressional budgetary and appropriations process. The Surface Mining Law specifies that 50 percent of the reclamation fees collected in each state with an approved reclamation program, and from Indian lands where the tribe has an approved reclamation program, are to be allocated to that state or tribe for use in its reclamation program. The remaining 50 percent is used by the Office of Surface Mining to fund emergency projects and high-priority projects in states or tribes without approved Abandoned Mine Land programs; to fund the Rural Abandoned Mine Program (RAMP), administered by the U.S. Department of Agriculture; to fund the Small Operator Assistance Program (SOAP); to fund additional reclamation of abandoned mine problems directly through state reclamation programs and to pay collection, audit, and administrative costs.

By the end of FY 2000, we collected more than $5.8 billion cumulatively for the Abandoned Mine Reclamation Fund, with more than $4.3 billion cumulative appropriated. Of this we transferred an additional $301 million of AML interest to the CBF.

Abandoned mine land grants to states and Indian tribes

In some states, particularly in the West, problems stemming from abandoned non-coal mines are more severe than those caused by coal mines. If the governor of a state or the equivalent head of an Indian tribe requests that AML funds be used in these instances, the Office of Surface Mining may approve the expenditure of Abandoned Mine Land funds to abate hazards on those lands. Once all known coal problems have been funded, the State or Indian tribe can certify this fact and then use all AML grant funds for eligible non-coal reclamation, with the provision that if coal problems are discovered; they are addressed first.

As soon as states establish approved regulatory programs, they are eligible to submit Abandoned Mine Lands reclamation programs to the Secretary of the Interior for approval. Beginning with Texas in 1980, The Office of Surface Mining has approved state reclamation programs so that currently all primacy states except Mississippi have approved Abandoned Mine Land reclamation programs. During FY 1988 and FY 1989, the Navajo, Hopi, and Crow Tribes received approval for their Abandoned Mine Land programs which were authorized by a special act of Congress in July, 1987, even though they did not have a regulatory program. Once states and tribes gain approval of their reclamation programs, funds are distributed in the form of grants to correct abandoned mine problems through reclamation. In FY 2000, the states and tribes received grants totaling $186.1 million to carry out reclamation programs.

A minimum-level program was established by Congress in FY 1988 to ensure funding of existing high priority projects in states where the annual distribution is too small for the states to administer a program. During FY 2000, eight were eligible for minimum-level funding of $1.5 (as authorized by the FY 2000 appropriation law) and received grants during the year. The eight eligible state programs received supplemental funding totaling $7.6 million in FY 2000.

Beginning in FY 1987, states could set aside up to 10 % of the state-share portion of their annual grants. Set-aside money was deposited into special trust funds along with interest earned, and became available to the state for reclaiming abandoned mine land problems after August 3, 1992 . A new set-aside program that does not supersede the transfer of funds deposited under the original FY 1987 program made funds available beginning in FY 1996. In FY 2000, nine states set aside $5.3 million.

Emergency program

Emergency projects are those involving abandoned coal mine lands that present an immediate danger to the public health, safety, or general welfare that cannot be addressed through the normal grants process. Typically, emergencies include landslides near homes and across roads, subsidence occurring under houses and public buildings, mine and coal waste fires, and open shafts discovered near populated areas. Because public health, safety, and property can be seriously threatened by abandoned mine emergencies, the capability for rapid response is critical. Reported emergencies are usually investigated within 24 hours and abated in less than a month. Emergencies are addressed through the Office of Surface Mining's three Coordinating Centers (in Pittsburgh, Pennsylvania; Alton, Illinois; and Denver, Colorado) and by states which have established their own emergency reclamation programs (Alabama, Alaska, Arkansas, Illinois, Indiana, Kansas, Missouri, Montana, North Dakota, Ohio, Oklahoma, Virginia, and West Virginia). In FY 2000, states obligated $9.3 million for emergency abatement while the Office of Surface Mining obligated $7.1 million for emergency projects.

Non-Emergency program

The Law sets out five priorities of eligibility for reclamation funding. The highest-priority projects protect public health, safety, general welfare, and property from the extreme danger and from the adverse effects of abandoned coal mining problems. The Law requires that these priorities be reflected when selecting the order of reclamation projects. During FY 2000 the states and tribes were awarded $176.8 million for non-emergency reclamation programs and the Office of Surface Mining obligated an additional $1.9 million for non-emergency reclamation projects.

Subsidence insurance program

The Surface Mining Law authorizes states and tribes with approved reclamation programs to use Abandoned Mine Land funds to establish self-sustaining, individually administered programs to insure private property against damage caused by land subsidence resulting from abandoned underground coal mines. Such programs are in operation in Colorado, Indiana, Kentucky, Ohio, West Virginia, and Wyoming and have been granted a total of $11.8 million through FY 2000 for this purpose.

Appalachian Clean Streams initiative

The Appalachian Clean Streams Initiative was started in the fall of 1995 by OSM. The Initiative supports local efforts to eliminate environmental and economic impacts of acid mine drainage from abandoned coal mines. The mission of the Initiative is to facilitate the efforts of citizen groups, university researchers, the coal industry, corporations, the environmental community, and local, state, and federal government agencies in cleaning streams polluted by acid mine drainage.

OSM's goal for the clean-up of acid mine drainage problems, through the Appalachian Clean Streams Initiative projects, is based on leveraging two-thirds of the funds from outside sources. Therefore, the success of this goal depends on outside funding commitments. Also, additional OSM funds for the Appalachian Clean Streams Initiative projects are needed to provide seed money for more projects.

To date 12 states have been awarded $14.3 million in funding. A growing number of citizen groups are becoming involved with this unique stream restoration program.

In FY 2000, the Office of Surface Mining realized 83 percent of its anticipated goal for funding of projects under the Appalachian Clean Streams Initiative.

Appalachian Clean Streams Initiative

Acid mine drainage (AMD) is the number one water pollutant in the coal fields of the Appalachian area causing major environmental and public health problems. OSM's emphasis on the Appalachian Clean Streams Initiative combined with increasing watershed stewardship at the community level, and more sophisticated and cost-effective treatment technology, has promoted increased water restoration projects. OSM has partnered with over 100 government agencies, private watershed groups, environmental groups, private foundations, coal producers, and private individuals on these projects. To further these type projects, in 1999, OSM implemented the Watershed Cooperative Agreement Program. The program allows OSM to award money directly to private not-for-profit agencies, such as small watershed organizations, to undertake local AMD reclamation projects. This program is intended to provide "finishing" money; that is, the final amount necessary to complement the contributions of other supporting partners so that actual construction can proceed.

Fee Compliance and Debt Management

OSM collected 99.6 % of the reclamation fees due during the fiscal year, for a total of over $273 million. An additional $1 million in prior year fees, interest and late charges was also collected, bringing the total to over $274.4 million. Although the percent of fees collected (99.6 percent) is the same as in 1999, the amount collected declined by $2.2 million. This was due to a decrease in the amount of coal produced this year. The total amount of tons on which fees were paid this year is shown below:

Millions of tons of Coal by Type\Year

	2000	1999	Difference
Surface	608.9	608.6	0.3
Underground	377.1	394.2	<17.1>
Lignite	85.1	86.9	<1.8>
Other	1.3	0.9	0.4
Total*	1,072.4	1,090.6	<18.2>

*Note: Figures exclude "no value" coal that is not assessed a reclamation fee.

OSM also measures how promptly companies report and pay reclamation fees. Ninety-two percent of mining permits reported and paid on time during the year. Over the years, the coal industry and the Office of Surface Mining have gradually improved compliance with the Surface Mining Act's quarterly reporting requirement. After follow-up by OSM, the final compliance rate this year was 99.8 %. Each additional percent of fee compliance this year equated to $2.7 million in extra collections. OSM will continue to work with the industry to ensure the companies have a complete understanding of all reclamation fee requirements, and that a high level of compliance is achieved.

OSM is working to raise the initial compliance rate and to make it easier for companies to report coal production and pay fees. OSM is developing an Internet based reporting website to allow companies to file their quarterly reports electronically. The website will provide automatic calculations of moisture deductions and amounts due, as well as provide on-line help and reporting instructions. Electronic filing will eliminate paper and the associated problems that can occur in a paper-based reporting system. A pilot test is planned for the first calendar quarter in 2001.

Budget

In FY 2000, Congress appropriated $195,873,000 from the Abandoned Mine Reclamation Fund to OSM to address its environmental restoration activities. These funds are used by the States who operate their reclamation programs, by OSM who operates the emergency and high priority project programs in other mining States, and by OSM to support these and other restoration activities.

Additionally, OSM has authority to accept and use contributions to the AML fund to provide for reclamation programs. OSM also charges a fee for certain parties who request maps and related information from the mine map repository.

All of these funds are available until expended.

Performance goals

Abandoned mine lands pose hazards for people and the environment. It is the goal of OSM and the states, working together, to eliminate these hazards with the most serious being addressed on a priority basis. Utilizing a nationwide inventory of abandoned mine hazardous sites, the coal program states and OSM have, since the passage of SMCRA, utilized the AML funding to eliminate these hazards. The states and OSM have formalized the reclamation of abandoned mines as their GPRA performance goal. For the purposes of reporting our accomplishments and for consistency, OSM developed a procedure that converts the reclamation results for each of the hazards eliminated to "acres reclaimed" .

Measuring the final results of the AML Program, the aim of which is to restore a safe and clean environment, is a difficult task. OSM uses intermediate measures, such as the number of acres reclaimed, as an indicator of success. It is estimated that over 1.5 million acres of land have been disturbed and over 11,500 miles of streams polluted by coal mining. Since 1977, over 140,000 acres of health and safety coal related problems such as underground fires, subsidence, landslides, open shafts, and unstable man-made cliffs (highwalls) have been reclaimed and over 455 miles of streams have been reclaimed.

OSM's annual performance goals are incremental annual estimates of the overall long-term goals set for the duration of the strategic plan. In some cases, the annual outputs may not be accomplished on a yearly basis, but the overall trend for the goal in the life of the strategic plan is what is important and will reflect successful accomplishment of the outcome of the long-term and mission goals of OSM. Long-term targets are based on past program performance. Reclamation projects can take up to three years to complete, decreasing the accuracy of projecting annual targets. Therefore, more weight is given to achieving the long-term goals rather than accomplishment of a single annual performance goal.

AML coal problems are classified by SMCRA into the following five priorities:

Priority 1	extreme danger of adverse effects to public health, safety, general welfare, and property;
Priority 2	adverse effects to public health, safety, general welfare, and property;
Priority 3	environmental hazards;

Priority 4	public facilities such as utilities, roads or recreation areas adversely affected by coal mining practices; and
Priority 5	development of publicly owned land adversely affected by coal mining practices.

The states and Indian tribes are an integral part of achieving the goals for the Surface Mining Program. It is these partners that carry out the mandates of the Act as the reclamation authorities in their respective jurisdictions and with whom OSM developed the outcome goals for the restoration of the environment. The success of the program would be jeopardized without their cooperation and commitment.

OSM manages the Abandoned Mine Land Inventory System (AMLIS) to help identify AML impacts. Only Priority 1 and 2 coal problem areas are required to be included in AMLIS. Other problem areas may be included if a state or Indian tribe elects to include or undertake a lower problem priority. It is estimated that $2.9 billion in coal health and safety problem areas remain to be addressed and currently there is a balance of approximately $1.5 billion in the Fund. Through FY 2000, $1.4 billion had been spent on coal health and safety problems by participating states and Indian tribes.

AML Acres Reclaimed

OSM uses the intermediate measure of "acres reclaimed" as an indicator of lands being restored creating a safer and cleaner environment. Reclamation problems can involve 17 different types of priority 1 and 2 hazards using five different units of measure: miles; acres; feet; counts; and gallons per minute. For GPRA purposes, all reclamation efforts are converted to "acres reclaimed" based on standardized conversion factors.

Performance Results

In FY 2000, OSM, along with its partners the states and Indian tribes, conducted an analysis of the indicators; the results of which follow.

> Acres Reclaimed - OSM's goal for FY 2000 was to reclaim 8,100 acres. OSM exceeded the goal: 12,176 acres were reclaimed.

These performance results represent cumulative acres reclaimed. The number of acres reclaimed is reported by states and Indian tribes, usually between two and four years after they receive the inital grant funding. Thus, results reported this year represent funds provided to states and tribes during fiscal years 1996-1998. Because OSM started using acres reclaimed to measure our success, in FY 1999 we improved our computer inventory system which records acres reclaimed. This improvement allowed for better reporting by the states and Indian tribes. Because of this improved reporting, the FY 2000 results were much larger than the goal. We expect that the backlog of reporting was completed in FY 2000, and that FY 2001 results will more closely match the FY 2001 goal.

Cost to reclaim an acre:

In accordance with the Statement of Federal Financial Accounting Standards Number 4 (SFFAS 4) - Managerial Cost Accounting "outputs produced by responsibility segments should be accumulated and, if practicable, measured in units (and) the full costs… should be assigned to outputs…". OSM has attempted to comply with this standard by computing the "cost per acre reclaimed". For FY 2000 this cost was determined to be $13,463, measured on a "full cost basis". Full costs include operating costs in addition to "other costs" such as depreciation, bad debt, and future funding expenses. Costs utilized in determining the cost per acre reclaimed represent approximately 91% of the total restoration responsibility segment "net cost of operations". (See Supplementary Statement of Net Cost). This approach corresponds to the number of reported acres reclaimed which includes priority 1, 2 and 3 problems for pre-SMCRA grant programs, coal interim sites, and acid mine drainage. It excludes federal emergencies, non-coal projects, and non-AML funded reclamation.

Description

A primary objective of the Surface Mining Law is to establish uniform national regulatory standards for protecting the environment during mining and for reclaiming land after it is disturbed by current and future surface coal mining. In recognition of the wide range of climatic and geologic conditions in coal-producing areas, Congress provided that, with Interior Department approval, individual states may establish their own programs for regulating surface and underground coal mining and reclamation on private land. The standards for state programs must be in accordance with the Surface Mining Law and consistent with the Federal regulations.

Congress recognized the importance of establishing regulations to implement the Law as quickly as possible, while recognizing that the preparation of such complex regulations would be a lengthy process following enactment. Consequently, a two-phase schedule was established. An abbreviated initial program was put in place immediately, followed by a more extensive and detailed permanent regulatory program. The initial program regulations were published in December 1977, and mine permits issued by states after February 1978 were required to conform with those regulations. Permanent program regulations were published in March 1979, following extensive review and comment from the public, including the coal industry and environmental groups. The regulatory provisions in the permanent program expanded upon those in the interim program. The regulations for the permanent program have been revised several times since 1979; more revisions can be made as needed or when new mining and reclamation techniques are developed. Such changes were anticipated by Congress; in fact, a provision in the Law for experimental practices encourages advances in mining and reclamation techniques, and people can petition the Office of Surface Mining to consider regulations they think are needed.

State regulatory programs

States have the principal role in implementing the Law. For a state to have primacy (authority to regulate coal mining operations within its borders), it must enact a program that demonstrates its capability to carry out the provisions of the Law. Specifically, states are required to develop state programs to include:

- a state law which provides for the regulation of surface coal mining and reclamation operation in accordance with the requirements of the Surface Mining Law, to include requirements for permitting, bonding, inspection and enforcement.
- rules and regulations consistent with the permanent program regulations; and
- sufficient administrative and technical personnel to regulate surface coal mining and reclamation operations in accordance with the requirements of the Act.

Once a state's program is approved by the Secretary of the Interior, the state has primacy—that is, the state becomes the regulatory authority for surface and underground mining of coal on private (non-federal and non-Indian) lands within its borders. From February 1980 to March 1983, 25 (Tennessee later relinquished primacy) states passed legislation and developed regulations consistent with the federal requirement and thus attained primacy. The expenses primacy states incur in operating their approved regulatory programs are shared by the Office of Surface Mining on a 50-50 basis.

Since 1977, the states have obligated $918.4 million in federal funding for the operation of regulatory programs, and in FY 2000 received $52.1 million.

The Office of Surface Mining is required to make inspections as necessary to evaluate the administration of approved state programs. Using a results-oriented oversight strategy, the primary focus is on measuring whether state programs are successfully achieving the purposes of the Surface Mining Law.

Two major goals of SMCRA are (1) to return lands after mining to a condition capable of supporting the land uses these lands were capable of supporting prior to mining in a timely manner and (2) to protect adjoining areas, people and other resources from negative impacts during mining. OSM established these goals as the primary measures of the success in the implementation of State and Federal mining programs.

The timely return of land capability is measured by the release of the final reclamation bond, defined as Phase III bond release, for each acre of successfully reclaimed lands. OSM has adopted the maximization of the annual Phase III bond released acres. Phase III bond release acres are the number of acres that have been fully reclaimed from current mining operations, meet the performance standards, and released as useful and productive restored land. This performance measure is the acres of land that is released every year by active coal mine operators (and is dependent on the operator to file application for the release). This is done through a series of bond releases. The bonds are required to assure that funds are available for reclamation in case the operator fails to reclaim the mined land. OSM is also reporting the acreage of Phase 1 and Phase II bond release in order to show the progression of reclamation toward Phase III in the reporting year.

Two thirds of the goal for released acreage from Phase III performance bonds was realized this year. The shortfall may be attributed to the lack of administrative processing of bond releases rather than land not being reclaimed adequately and promptly. With bond release, a major focus of oversight, OSM is exploring strategies to improve performance in this area by working with the operators and states to develop mechanisms which reclaimed lands can be better and consistently identified.

Federal regulatory program

The Surface Mining Law encourages state authority over mining and reclamation. However, if a state chooses not to develop its own program, the Office of Surface Mining is required to regulate all surface and underground coal mining and reclamation operations within that state. The Office of Surface Mining is also required to regulate all such operations if the state does not implement, enforce, or maintain its program adequately.

Eleven states with coal reserves elected not to establish their own regulatory programs. Of these, only Washington has active surface coal mining. Tennessee repealed its regulatory program in 1984, and there are currently 12 states (Arizona, California, Georgia, Idaho, Massachusetts, Michigan, North Carolina, Oregon, Rhode Island, South Dakota, Tennessee, and Washington) with federal programs in effect.

Federal and Indian lands program

The Surface Mining Law requires the Secretary of the Interior to implement a program for all surface and underground coal mining and reclamation on federally owned land—a feature that is significant because the federal government owns vast coal reserves. In the West, 60% of the 234 billion tons of identified coal reserves is federally owned. However, any state with an approved regulatory program may enter into a cooperative agreement with the Secretary of the Interior to regulate surface coal mining and reclamation on federal lands within the state. Currently 14 states (Alabama, Colorado, Illinois, Indiana, Kentucky, Montana, New Mexico, North Dakota, Ohio, Oklahoma, Utah, Virginia, West Virginia, and Wyoming) have signed cooperative agreements to regulate mining and reclamation operations on Federal land.

The Office of Surface Mining also regulates surface coal mining on Indian lands and is assisting four tribes (Crow, Hopi, Navajo, and Northern Cheyenne) in developing programs for regulating coal mining operations on Indian lands, in anticipation of future authority from Congress to approve Indian primacy programs.

Small operator assistance program

The Surface Mining Law authorized up to ten percent annually of the fees collected for the Abandoned Mine Reclamation Fund to be used to help qualified small mine operators obtain technical data needed for mine permit applications. During FY 2000, $1.7 million was granted to the states for this program.

Budget

In FY 2000, the Congress appropriated $95,551,000 from the General Treasury to OSM to fund its environmental protection activities. These funds are used by the states to operate their own regulatory programs, by OSM to operate regulatory programs in states lacking primacy, and by OSM to support these activities. The funds not obligated by the end of the fiscal year lapse and are returned to the Treasury. Congress augmented the appropriation by $9.8 million, Public Law 106-246, for West Virginia regulatory programs. These funds remain available until spent.

Additionally, OSM is authorized to collect and use civil penalty receipts. Total budget authority for obligation was $228,089. These funds are used to fund post Act reclamation; that is, they are used to address reclamation needs that resulted from coal mining operations that occurred after SMCRA was enacted. These funds are available until expended.

Performance goals

On-the-ground results are measured by the percentage of inspectable units that are free of off-site impact during each evaluation year. This measure is adopted as our GPRA goal for active mining areas.

As part of each Federal and State mine inspection, a determination is made whether any negative off-site impacts have occurred or are occurring at that mine site. These are recorded on an annual basis for

Off-site Impacts

Protecting the environment, people and property is measured by the number of times incidents occur outside the boundaries of the permitted areas being mined. These are known as off-site impacts and ideally the goal is to have no incidents occur. It is inevitable that some impacts will occur - 100% compliance is not realistic. The impacts are damaging effects that would occur as a result of blasting, land stability, hydrology, encroachment, etc. that would affect people, land, water, or structures outside the permitted area of mining operations.

each mine. It is the goal of OSM and its State partners to minimize off-site impacts at all mines. The measure of our success in meeting this goal is to assure a high percentage of all inspected mine sites are without negative off-site impacts throughout the year.

The Office of Surface Mining uses off-site impacts to measure success in protecting the environment and society from the hazards of current mining and the subsequent reclamation of these lands.

During active mining, the potential risk from safety and environmental hazards increases within the permitted site. However, because of required precautions, long-term effects are minimized. It is the ultimate goal of the Surface Mining Program to have 100 % of mine sites free of off-site impacts.

OSM has taken the most important step towards this goal by evaluating off-site impacts where it is the regulatory authority and through the oversight process in states with primacy. The results have been tabulated for all mine sites nationwide for two consecutive years. To continue improving or reducing the number of off-site impacts, OSM needs to review and evaluate the location, numbers, and types of off-site impacts discovered and prescribe program improvements to minimize the impacts. This may include making permit adjustments, maximizing inspections and providing assistance and technical expertise.

Performance results

To measure the outcomes of this goal - protecting the environment, people and property during and subsequent to current mining in order to provide safeguards - the Surface Mining Program looked at the one output that would indicate attainment of these desired results. It is:

> The number of off-site impacts that occur - these are damaging effects that would occur as a result of blasting, land stability, hydrology or encroachment that would affect people, land, water, or structures outside the permitted area of mining operations.

In FY 2000, OSM, along with its partners the states and Indian tribes, conducted an analysis of the indicators, the results of which follow.

In FY 2000, the Surface Mining Program's goal was to have 94% of the mines free of off-site impacts and that goal was realized. Of the 6% of the sites that did have incidents occur off-site, 90% were in the minimum to moderate category of severity. In the future, OSM will be working with States, Indian tribes and coal industry to strive for and maintain, a minimum number of occurrences.

Description

Public Law 102-486 was passed on October 24, 1992, and effective with FY 1996, OSM is required to transfer annually a portion of the interest earned from the AML Special Fund to the United Mine Workers of America Combined Benefit Fund (CBF). 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 FY 2000 annual payment was $42.5 million for 16,972 beneficiaries. Prior year adjustments decreased this payment by $1.5 million. In addition to these payments, Public Law 106-113 required OSM to transfer an additional $68 million to pay for any shortfall in any premium account in any plan year under the CBF.

Budget

In FY 2000, OSM collected $94.4 million in investment earnings. Those collections brought the cumulative investment collections to $566.4 million. (In FY1992, $39.3 million was collected and $7 million was transferred to the Appalachian Clean Streams Initiative.) Of these cumulative collections, all but the FY 1992 collections of $32.3 million are available to transfer to the CBF under PL 102-486. Cumulative transfers, including FY 2000, are $301.8 million, leaving an interest balance of $257.6 million (of which $225.3 is available for appropriation and/or transfer under PL 102-486 and the Surface Mining Coal Reclamation Act.)

In FY 2000, the interest transfer was identified as indefinite budget authority from a special fund account, and marked as mandatory spending. Each year, the actual amount is limited pursuant to PL 102-486 and SMCRA, as well as limitations or conditions cited in annual Interior Appropriations Acts.

Performance goals

OSM determined meaningful performance measures for this transfer are not possible. Once the transfer is made (five business days from the request by the CBF), OSM has limited authority over how the transferred money is used. OSM requested an audit of these funds from our Inspector General's office to ensure that the transferred funds were used in accordance with the provisions of PL 102-486, and SMCRA.

Summary of Annual AML Interest Collection and Transfers to the UMWA Combined Benefit Fund
As of Septembr 30, 2000
(in thousands)

Year of Transfer	Interest Collected	FY 1996 Transfer	FY 1997 Transfer	FY 1998 Transfer	FY 1999 Transfer	FY 2000 Transfer	Transfers To-date	Interest Balance
1992	$32,328	$0	$0	$0	$0	$0	$0	$32,328
1993-95	132,453	0	0	0	0	68,000	68,000	64,453
1996	69,384	47,184	0	(10,721)	9,554	(2,535)	43,482	25,902
1997	81,007		31,374	7,034	15,129	(4,240)	49,297	31,710
1998	67,031			36,249	9,495	7,961	53,705	13,326
1999	82,830				47,588	(2,708)	44,880	37,950
2000	94,369					42,482	42,482	51,887
Total	$559,402	$47,184	$31,374	$32,562	$81,766	$108,960	$301,846	$257,556

Technical Support

The Office of Surface Mining provides states, Indian tribes, federal agencies, the coal industry, and citizens with the technical information and tools they need to carry out their responsibilities under the Surface Mining Law. During FY 2000 this included:

- The National Technical Information Processing System (TIPS) Team is in the process of significantly increasing the scientific software available to users and, commensurately, expanding the training program. These efforts included:

  -providing a comprehensive training program for software users–31 classes training 325 students;

  -providing TIPS geospatial and CAD software to users' desktops;

  -conducting the necessary research and development that will add 10 new scientific software applications in FY 2001; and

  -providing technical assistance to states, tribes and OSM offices.

- Technical Training which provided assistance to the states and tribes program staff in the form of specialized training. During FY 2000, 45 courses were offered to 902 students. The students gave the courses a 94% satisfaction rate.

- An Applicant Violator System. One of the underlying principles in the Surface Mining Law is that those who benefit from mining are responsible for returning the land and water to productive use. The Law also prohibits the issuance of new permits to applicants who are responsible for outstanding violations until those violations are corrected. To accomplish this, the Office of Surface Mining operates an Applicant Violator System of violation records. During FY 2000 the Office of Surface Mining responded to 3,732 requests for evaluation checks and collected and/or settled payments of $1.1 million.

Information technology

In addition to the traditional computer support program the Office of Surface Mining maintains a telecommunications network to electronically transmit and receive information from sources both inside and outside of the agency. Although much of this support service is centralized in the Washington, D.C. Headquarters, a substantial amount of the program staff and work is done at the Regional Coordinating Centers and the field offices.

Human resources management

Located in Washington, D.C., Human Resources oversees and implements the Federal classification, compensation, employee/labor relations, Quality of Work Life/benefits, and recruitment programs for OSM. In FY2000, HR implemented an on-line recruitment system increasing efficiency/effectiveness of recruitment. Applicants can view vacancy announcements and apply on-line. This simplified application process has increased the number/diversity of applicants. The automated scoring process has provided management with applicants that better meet their needs and in less time.

Succession planning and increased workforce diversity drive OSM recruitment and retention efforts. Staff aggressively recruit at minority colleges and career fairs. The Quality of Worklife program provides employee oriented seminars drawing employees from other federal agencies. HR managed employee benefits and performance and instituted transportation and child care subsidies. The Alternative Dispute Resolution is a key part of employee management relations effectively resolving workplace disagreements.

Equal opportunity

The Office for Equal Opportunity (OEO) reports to the Director of OSM. The staff is delegated service-wide responsibility to monitor and ensure compliance of equal opportunity laws and regulations for OSM employees and applicants for employment regardless of their race, color, sex (including sexual harasssment), religion, age (40 and over), national origin, sexual orientation, physical/mental disability, reprisal, genetic information and status as a parent.

OEO provides technical guidance and assistance to Field Equal Opportunity managers and supervision to designated Equal Employment Opportunity (EEO) Counselors. The office issues and interprets equal opportunity policy and monitors compliance of pertinent equal opportunity laws, regulations and guidelines.

- *Affirmative Action/Diversity*

OSM hired 26 new employees during FY2000, of which 15 (57.7%) were women and 12 (46.27%) were minorities. There were no new permanent hires of persons with disabilities. In addition, of the 62 promotions this fiscal year, women received 44 (71%) and minorities received 21 (33.9%).

■ *Discrimination Complaints*

During FY-2000, 11 new discrimination complaints were filed in OSM. This was a decrease of two complaints (13 in FY99) over the previous year. This is the third consecutive year that the number of complaints has decreased. At the end of FY2000, there were a total of 18 complaints being processed at all stages, a decrease of 12 complaints over the previous fiscal year. There are no complaints over 180 days without the issuance of an investigative report.

Federal Manager's Financial Integrity Act (FMFIA)

The Federal Managers' Financial Integrity Act (FMFIA) requires agencies to annually provide a statement of assurance of the effectiveness of internal controls in achieving reliability of financial reporting, compliance with applicable laws and regulations, and reliability of performance reporting.

FMFIA Assurance Statement

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

Glenda Owens,
Acting Director

Management Control Review

The Office of Surface Mining conducted its annual assessment of agency programs and systems in accordance with the Federal Managers' Financial Integrity Act (FMFIA) and Office of Management and Budget Circular A-123. FMFIA requires us to conduct periodic reviews of our programs and systems to provide assurance management controls are in compliance with the applicable laws, regulations, and policies. In 1999, the Office of Inspector General (OIG) conducted an audit of our automated information systems. The audit report identified a number of weaknesses in information system security. For FY 2000, a follow-up assessment of our computer centers, Appalachian Regional Coordinating Center and Headquarters local area networks was conducted to assure the weaknesses identified by the OIG had been corrected and there were no new weaknesses. In addition, we conducted assessments of selected programs and administrative functions. No material weaknesses were identified. Areas for improvement were identified and corrective actions are being implemented. In general we found our management controls adequate to safeguard our programs and systems against waste, fraud, abuse, and mismanagement.

In FY 2000, the Office of Financial Management (PFM) announced the creation of two new Department Functional Reviews (DFR) SmartPay and Cash Management. Both reviews were conducted by PFM using the automated assessment tool.

Computer Systems Security

The Office of the Inspector General has reviewed OSM's financial management systems and controls and has concluded that they provide reasonable assurance that the accounting systems comply with appropriate Federal requirements, as evidenced in the "clean" audit opinions. However, in a December 1999 audit of OSM's automated information systems, the Office of the Inspector General stated that the weaknesses found in OSM's general controls over its automated information systems should be a "reportable condition" in OSM's annual financial statements for FY 1999. OSM has made substantial progress in implementing the audit recommendations. Specifically, OSM has conducted risk assessments on its systems, developed appropriate security plans to address the risks, and issued an Information Systems Security Directive. OSM has implemented an effective information systems security program to ensure that all agency data is protected from loss, misuse, or illegal disclosure. Based upon a followup audit performed in FY 2000 by OIG, the financial management systems at OSM are in compliance with the Federal financial management system requirements.

Federal Financial Management Improvement Act (FFMIA)

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

- OSM is developing an interface to the Department of Treasury's Automated Standard Application for Payments to use for grant payments. The interface standardizes the way that grantees request and receive payment. OSM issues over $206 million a year in grant payments to 27 states and tribes and 30 watershed groups.

- OSM is also improving the way it delivers information to managers by increasing the use of its Management Accounting and Performance System (MAPS). This system delivers financial, grants, and personnel data to agency managers and analysts. It provides desktop access to a suite of reports that give managers information whenever they want it.

Prompt Payment Act

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

- Credit Cards were used to cut through red-tape and expedite payment. More than 96 % of purchase transactions were made with credit cards in FY 2000, and the agency continues to promote their increased use, and

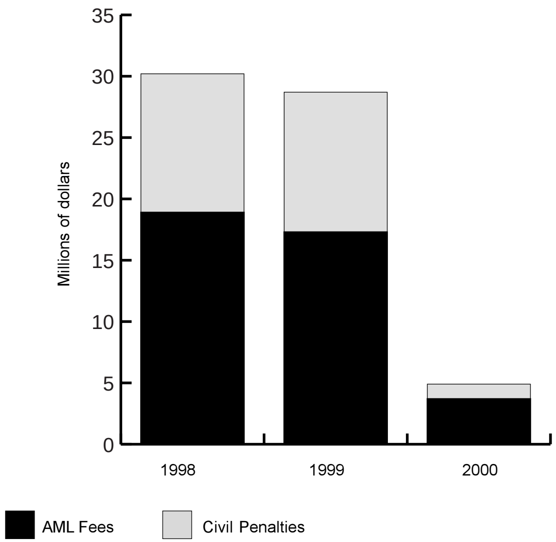
- Electronic funds transfer (EFT) was used to make 81 % of the agency's vendor payments covering 99.9 % of the dollar amount paid.

Debt Collection Improvement Act

OSM collected over 99.6% of the Abandoned Mine Land Reclamation Fees due this year, and a total of $274.4 million. This is the result of an integrated fee compliance program that works with the coal mining industry to provide clear guidance on fee payment and reporting issues, as well as active follow-up through audits.

The current uncollected outstanding accounts receivable balance is $5.6 million, comprised of $4.3 million in AML Fees and Audit debt, and $1.3 million in civil penalties. The $5.6 million balance represents an overall 80% decrease in outstanding debt from FY 1999, as illustrated in the Accounts Receivable chart below .

Accounts Receivable

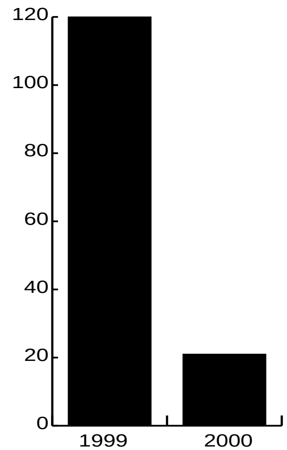


This substantial decrease in accounts receivable is the result of new government write-off standards which allow agencies to write-off debts that are currently not collectible. Nevertheless, the remaining balance of $5.6 million still includes accounts that may not be collectible. After deducting a $3.2 million estimate for uncollectible receivables, we estimate that $2.4 million of this amount should be collectible.

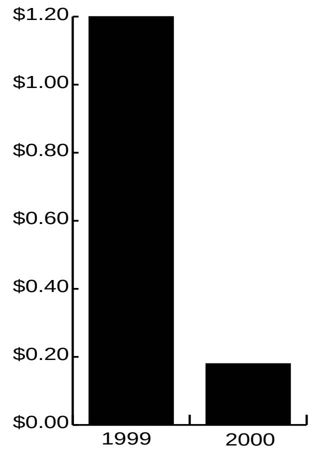
OSM is in substantial compliance with the Debt Collection Improvement Act and has referred 100% of its eligible, uncollected debts to the Department of Treasury for collection.

Civil Monetary Penalty Act

OSM has increased the assessment amounts of civil monetary penalties in accordance with the Act, and is in compliance. The agency issues civil monetary penalties for violations of the Surface Mining Control and Reclamation Act. However, due to the agency's proactive approach to working with companies to prevent problems, the dollar amount and number of civil penalties continues to drop, as shown in the figure below.



Number of Civil Penalties



Dollar Amount of Civil Penalties (in millions)

Stewardship of the Abandoned Mine Land Reclamation Fund

OSM invests the cash balance of the Abandoned Mine Land Reclamation Fund in Treasury securities. The interest earnings are used to pay for reclamation and to pay the health benefits of unassigned beneficiaries under the United Mine Workers of America Combined Benefit Fund. The current invested balance is $1.8 billion, this includes the $1.5 billion unappropriated fund balance plus $300 million appropriated but not yet spent. The fund earned an average rate of 5.15 % for a total of $94.4 million this year.

Increased Abandoned Mine Land Funding

The highlight to the FY 2001 President's Budget is the continuation of the Administration's commitment for a multi-year effort to fund the Abandoned Mine Lands program at a level equal to fee receipts by 2003. The FY 2000 budget provided the initial increment of $10.5 million to achieve this commitment. The FY 2001 budget provided an additional 19.2 million. Of this sum, the FY 2001 appropriation provided an additional $12.6 million specifically earmarked for additional Pennsylvania reclamation activities. It also provided $3.7 million for grants to States, $2 million for the Appalachian Clean Streams Initiative, and $0.9 million for uncontrollable cost increases. This increase in project funding will result in a concurrent increase in reclaimed acreage over the next several years and will also provide a major beneficial impact to the citizens of the coal fields and the lands and waters in their communities.

Reauthorization of AML Fee

Congress established the Abandoned Mine Reclamation Fund to be used for the reclamation and restoration of areas affected by past mining. The Fund is derived from a reclamation fee collected from coal mine operators on a per ton basis of coal sold, used, or transferred since the passage of the Surface Mining Control and Reclamation Act, and has been extended twice. It is now set to expire on September 30, 2004. The fund's cumulative balance as of September 2000 was over $ 1.5 billion, but an estimated $2.9 million is needed to reclaim all of the priority one and two health and safety problems. OSM estimates that after the funds collected through 2004 are expended, and the unappropriated balance in the Fund is spent, approximately $1.5 billion dollars of Priority 1 and 2 health and safety problems still will not be reclaimed, assuming the ratio of inventory reduction to dollars remains the same. The key issues that Congress and the Executive Branch must consider are 1) when enough fees will be collected to fund reclamation of the remaining problems that are determined to be necessary to reclaim, 2) the impact of the fee on coal's competitiveness, and 3) regional equity.

(dollars in thousands) CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF SEPTEMBER 30, 2000

ASSETS	
With the Federal Government	
Fund Balance with Treasury (Note 2)	$44,699
Investments (Note 3)	1,832,171
Accounts Receivable (Note 4A)	9
Total Federal	$1,876,879
With the Public	
Accounts Receivable (Note 4B)	2,118
Interest Receivable (Note 4C)	375
Physical Assets (Note 5)	2,891
Total Public	$5,384
Total Assets	$1,882,263
LIABILITIES	
With the Federal Government	
Accounts Payable	119
Federal Employee Benefits	463
Unfunded Liabilities	669
Amounts Held for Others (Note 6A)	342
Other	22
Total Federal	$1,615
With the Public	
Accounts Payable	2,441
Federal Employee Benefits	2,334
Amounts Held for Others (Note 6B)	529
Accrued Unfunded Employee Benefits	4,150
Actuarial Liabilities	2,485
Estimated Future Liability (Note 7)	120,677
Total Public	$132,616
Total Liabilities (Note 8)	$134,231
NET POSITION	
Unexpended Appropriations (Note 9 & Note 16)	38,438
Cumulative Results of Operations	1,709,594
Total Net Position	$1,748,032
TOTAL LIABILITIES AND NET POSITION	$1,882,263

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

(dollars in thousands) CONSOLIDATED STATEMENT OF NET COST FOR THE YEAR ENDED SEPTEMBER 30, 2000

COSTS	
Operating Costs	
Paid to the Federal Government (Note10)	$19,671
Paid to the Public	
UMWA Combined Benefit Fund Transfer (Note 11)	108,960
Paid to the Public	263,099
Total Paid to the Public	372,059
Total Operating Costs	$391,730
Other Costs	
Interest Expense	1
Future Funding Expenses (Note 12)	199
Depreciation and Amortization	625
Net Loss on Disposition of Assets	99
Bad Debt Expense	2
Total Costs	$392,656
LESS EARNED REVENUE	
From the Federal Government (Note 13A)	1,999
From the Public (Note 13B)	61
Total Earned Revenues	$2,060
NET COST OF OPERATIONS	$390,596

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

(dollars in thousands) CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION FOR THE YEAR ENDED SEPTEMBER 30, 2000

NET COST OF OPERATIONS	$390,596
FINANCING SOURCES	
Appropriated Capital Used	96,376
Donations	1
Interest Revenue	97,819
Other Non-Exchange Revenue (Note 14)	275,257
Imputed Financing Sources (Note 15)	3,661
Financing Sources Transferred-In/Out	(20)
Fines and Penalties - Public	85
Financing Sources	$473,179
Net Results of Operations	$82,583
Change in Accounting for Non-Appropriated Financing (Note 16)	289,066
Prior Period Adjustments (Note 17)	14
Net Change in Cumulative Results of Operations	$371,663
Change in Unexpended Appropriations	(283,700)
Change in Net Position	$87,963
Net Position-Beginning of Period	1,660,069
NET POSITION - END OF PERIOD	$1,748,032

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

(dollars in thousands) CONSOLIDATED STATEMENT OF BUDGETARY RESOURCES FOR THE YEAR ENDED SEPTEMBER 30, 2000

BUDGETARY RESOURCES	
Budget Authority	$410,945
Appropriations Available for Investment but Not Obligation (Note 18)	1,507,745
Unobligated Balances - Beginning of Period	61,302
Spending Authority from Offsetting Collections	2,086
Adjustments	32,962
Appropriations Available for Investment but not Obligation (Note 18)	(1,507,745)
Total Budgetary Resources Made Available	$507,295
STATUS OF BUDGETARY RESOURCES	
Obligations Incurred	$437,137
Unobligated Balances Available	65,462
Unobligated Balances Not Available (Note19)	4,696
Total Status of Budgetary Resources	$507,295
OUTLAYS	
Total Obligations Incurred	$437,137
Spending Authority from Offsetting Collections and Adjustments	(39,387)
Obligated Balance Net-beginning of Period	268,889
Obligated Balance Net-End of Period	(277,325)
Total Outlays	$389,314

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

(dollars in thousands) CONSOLIDATED STATEMENT OF FINANCING FOR THE YEAR ENDED SEPTEMBER 30, 2000

OBLIGATIONS AND NONBUDGETARY RESOURCES	
Obligations Incurred	$437,137
Less Spending Authority for Offsetting Collections and Adjustments	(39,386)
Imputed Financing	3,661
Exchange Revenue Not in the Budget	(14)
Total Obligations as Adjusted and Non Budgetary Resources	$401,398
RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS	
Change in Amount of Goods, Services, and Benefits Ordered but not yet Received or Provided	$(11,195)
Change in Unifilled Customer Orders	39
Costs Capitalized on the Balance Sheet	(569)
Financing Sources That Fund Costs of Prior Periods	(1)
Other (Donations)	1
Total Resources That Do Not Fund Net Cost of Operations	$(11,725)
COSTS THAT DO NOT REQUIRE OR GENERATE RESOURCES	
Depreciation and Amortization	$625
Revaluation of Assets and Liabilities	99
Other	(89)
Total Costs That Do Not Require or Generate Resources	$635
FINANCING SOURCES YET TO BE PROVIDED	$288
NET COST OF OPERATIONS	$390,596

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

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 Principals (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.

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

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

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

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

C. Responsibiltiy

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 fees (AML Fund) and civil penalty assessments and are used for the purpose of reclamation projects.

- AML Funds - These funds were established by SMCRA for the deposit of coal reclamation fees, related late payment interest, and administrative charges recovered in pursuing collections. Available reclamation fees are used solely to finance the Abandoned Mine Lands (AML) Reclamation program. However, before AML funds can be used, a Congressional appropriation is necessary to authorize yearly spending limits.
- Civil Penalty Funds - Penalties are assessed for violations and are used to reclaim mining sites.
- Bond Forfeiture - Companies sometimes forfeit bonds and the money is used to reclaim the mine site.
- Investment Fund - Available Special Fund balances, in excess of current cash requirements, are regularly invested in non-marketable federal securities as authorized under Public Law 101-508.

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

- 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 responsibility segments are:

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

The costs of the Executive Direction and Administration are allocated to the Restoration and Protection 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 collects revenue from assessments levied against permittees who violate any permit condition or any other provision of Title 30 U.S.C. 1268. Regulations require that proceeds from this fund be used to reclaim lands adversely affected by coal mining practices on or after August 3, 1977.

3. Abandoned Mine Land Fees (AML)

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

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

4. 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 Funds unexpended balance to the United Mine Workers of America Combined Benefit Fund (CBF). See Note 11 for additional information.

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

E. Centralized Federal Financing Activities

OSM's financial activities interact with and are dependent on the financial activities of the centralized management functions of the federal government that are undertaken for the benefit of the government as a whole. These activities include public debt and employee retirement and post-employment benefit programs. Employee retirement and post-employment benefit costs, along with an imputed financing source for these costs, are included in OSM's financial statements. Please see Note 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 is used for special and civil penalty funds accounts receivable. Under this method, an allowance for doubtful accounts is calculated based upon OSM's past experience in successfully collecting delinquent accounts receivable by aging category. OSM's allowance methodology is representative of the collectability of delinquent 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 that are disbursed through an automated payment system. OSM accrues these drawdowns as expenditures because they are either reimbursements or the state or tribe immediately disburses the money on its program. All OSM disbursements are made by the Treasury. Either semiannually or annually, grantees report costs incurred to OSM.

H. Administrative Expenses

Executive and general administrative expenses incurred by OSM benefit both the Regulation and Technology and AML funds. 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) emergency program distribution. The state-share portion is based on the percentage of each state's balance in the AML Trust Fund. All states or tribes with a participating state or tribal reclamation program receive state share distributions on an annual basis if they have a balance in the trust fund. OSM distributes additional monies from the federal-share portion of the AML appropriation based upon state historical coal production prior to 1978. Under the minimum program provisions, OSM distributes at least $1.5 million to states or tribes with qualifying reclamation projects. This provides additional funding for Priority 1 & 2 AML coal projects. OSM also distributes monies to be used only for qualifying emergency programs from the federal-share portion of the appropriation.

J. Fund Balance with Treasury 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.

Some of these investment earnings are transferred to the United Mine Workers of America Combined Benefit Fund. See Note 11 for additional information.

L. Personnel Compensation and Benefits

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

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

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

OSM employees contribute seven percent of their gross pay to CSRS. OSM makes matching contributions to CSRS on behalf of CSRS employees. Employees covered by CSRS are not subject to Social Security taxes, nor are they entitled to accrue Social Security benefits for wages subject to CSRS. CSRS employees, however, do contribute to Medicare. FERS employees are subject to social security and Medicare taxes. OSM also contributes an amount equal to one percent of the employee's basic pay to the tax deferred thrift savings plan and matches employee contributions up to an additional four percent of pay for FERS employees. FERS employees can contribute up to 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 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. All funds reported on these statements are entity funds. Restricted amounts represent the AML fees collected but not yet made available for spending by Congress.

Fund Balance

(Dollars in thousands)

Available	$347,482
Restricted	1,529,388
Subtotal Fund Balance	$1,876,870
Less Invested Balance (See Note 3)	(1,832,171)
Total Fund Balance	$44,699

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.

Investments

(Dollars in thousands)

Face Value	$1,847,088
Unamortized Discount	(35,689)
Amortization on Premiums or Discounts	20,772
Net Investments	$1,832,171

Note 4.

Accounts Receivable:

4A.

Accounts Receivable with the Federal Government	
(Dollars in thousands)	
BIA - Department of the Interior	$6
Corps of Engineers	3
Net Receivables with the Government	$9

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.

4B.

Accounts Receivable with the Public

(Dollars in thousands)

		Allowance for Uncollectible Accounts				
	Gross A/R	Beginning Balance	Additions	Reductions	Ending Balance	Net A/R
Total Accounts Receivable	$4,219	$13,848	$46	($11,793)	$2,101	$2,118

Method of Determining Allowance for Uncollectible Accounts: The allowance for uncollectible accounts is determined by first aging the accounts receivable balance and the accounts that have been written off and collected in the past year. The amount of accounts receivable that have been written off as uncollectible in each age category is then divided by the total accounts receivable written off plus the total collected in that age category. The resulting percentage is the estimate of the percent of accounts receivable that are uncollectible for that age category. These percentages are then multiplied by the amount of accounts receivable currently outstanding in each age category. The resulting total is the estimated amount of accounts receivable that are uncollectible.

4C.

Interest Receivable from the Public

(Dollars in thousands)

	Gross Interest & Receivable	Allowance for Uncollectible Accounts: Beginning Balance	Additions	Reductions	Balance	Net Interest Receivable
Non- Entity	$141	$1,239	$111	($1,231)	$119	$22
Entity	1,297	12,722	944	(12,722)	944	353
Total Interest Receivables	$1,438	$13,961	$1,055	($13,953)	$1,063	$375

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

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 assets useful life is determined using General Service Administration guidance.

Physical Assets

(Dollars in thousands)

	Service Life	Acquisition Value	Accumulated Depreciation	Book Value
ADP Equipment	15	$2,501	($1,549)	$952
Office Equipment	11-20	917	(220)	697
Vehicles	6-10	2,654	(1,412)	1,242
Total Physical Assets		$6,072	($3,181)	$2,891

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.

6A.

Amount held for Others with the Federal Government

(Dollars in thousands)

Reimbursable Advance	$294
Other Deposits	48
Total	$342

6B.

Amount Held for Others with the Public	
(Dollars in thousands)	
Reimbursable Advance	$303
Other Escrows	76
Civil Penalties Escrow	49
Bonds	10
Other Deposits	83
Overpayments	8
Total	$529

Note 7.

Estimated Future Liabilities:

1. 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.

2. Contingent Liabilities

There have been claims filed against OSM with adjudications pending. As of September 30 an additional $28,563 (for a total of $120,677,448 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 of $120,200,000 are expected to be paid out of the Judgment fund maintained by Treasury and settlements of $477,448 from the operating resources of OSM.

No amounts have been accrued in the financial records for claims where the amount or probability of judgment is uncertain. Sufficient information is not currently available to determine if the ultimate resolution of these proceedings, actions, and claims will materially affect OSM's financial position or results of operations.

Note 8.

Liabilities			
(Dollars in thousands)	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Accounts Payable – Federal	$119		$119
Federal Employee Benefits	463		463
Unfunded Accounts Payable – Federal		$669	669
Amounts Held for Others	342		342
Other	22		22
Total Liabilities with the Federal Government	$946	$669	$1,615
Accounts Payable - Public	$2,441		$2,441
Federal Employee Benefits	2,334		2,334
Amounts Held for Others (Note 6)	529		529
Accrued Unfunded Annual leave		4,150	4,150
Actuarial Liabilities		2,485	2,485
Estimated Future Liabilities (Note 7)		120,677	120,677
Total Liabilities with the Public	$5,304	$127,312	$132,616
Total Liabilities	$6,250	$127,981	$134,231

Note 9.

Unexpended Appropriations	
(Dollars in thousands)	
Unobligated and Available	$9,944
Unobligated and Unavailable	4,696
Obligated	23,798
Total Unexpended Appropriations	$38,438

Note 10.

Costs Paid to Federal Agencies	
(Dollars in thousands)	
Department of the Interior:	
Bureau of Reclamation	$21
Bureau of Land Management	4
Minerals Management Service	57
National Park Service	3
Office of the Secretary	3,257
Fish and Wildlife Service	6
U.S. Geological Survey (USGS)	5
Total, Department of Interior	$3,353
Other Federal Agencies:	
Office of Personnel Management	$5,878
U S Postal Service	37
Department of Labor	258
General Services Administration	3,577
Department of Agriculture	714
U.S. Treasury	1,567
Government Printing Office	333
Department of State	179
Other	114
Total, Other Federal Agencies	$12,657
Other - Imputed Cost	3,661
Total Costs Paid to Federal Agencies	$19,671

Note 11.

UMWA CBF Transfers:

Presently, all earnings from AML investments are reinvested, thus providing a source of additional funding to enhance AML Special Fund equity. However, with the enactment of Public Law 102-486 on October 24, 1992, and effective with FY 1996, OSM is required to transfer annually a portion of the interest earned from the AML Special Fund to the United Mine Workers of America Combined Benefit Fund (UMWA CBF). These AML interest proceeds are made available to provide health benefits for certain eligible retired coal miners and their dependents. The number of beneficiaries can change from year to year based on court cases, bankruptcies, and mortality.

UMWA CBF Transfers	
(Dollars in thousands)	
Total Number of Beneficiaries	16,972
Public Law 106-113	$68,000
FY 2000 Costs	42,482
FY 1999 Costs	(2,708)
FY 1998 Costs	7,961
FY 1997 Costs	(4,240)
FY 1996 Costs	(2,535)
Total Payment	$108,960

Note 12.

Future Funding Requirements:

The Department of the Interior has provided OSM with its unfunded future liabilty 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)	
Accrued Unfunded Leave	$249
FECA Accrual	40
FECA Actuarial Changes	(118)
Contingent Legal Liabilities	28
Total Future Funding Requirements	$199

Note 13.

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)	
13A. Total Revenue from Federal Government	
Bureau of Indian Affairs	$992
Bureau of Land Management	71
Minerals Management Service	130
Office of the Secretary - DOI	8
Environmental Protection Agency	48
Department of Energy	17
Department of State	623
Office of Solicitor	4
Corps of Engineer	11
USDA-forest Service	25
National Endowment of the Arts	20
Vehicle Sales	50
Total Revenue from Federal Government	$1,999
13B. Total Revenu from the Public	
Bond Forfeitures	$3
Indonesia	33
Copy Fees	2
Blaster Fees	2
Permit Fees	13
Mine Map Sales and FOIA	8
Total Revenue from the Public	$61
Total	$2,060

Note 14.

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)	
Administrative Revenue from AML fees	$275,194
Civil Penalty Revenue	63
Total Other Revenues and Financing Sources	$275,257

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 Cost	Assigned Cost
Civil Service Retirement System Pensions	$23,461	8.29%	$1,945
Civil Service Retirement System Offset Pensions	2,139	9.84%	210
Federal Employee Retirement System Position	12,686	(0.4%)	(50)
Retirement Life Insurance	31,630	0.02%	6
Retirement Health Benefits	567 employees (yearly average)		
	multiplied by $2,733.00 per employee		1,550
Total Assigned Benefits Cost			$3,661

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

Note 16.

Change in Accounting for Non-Appropriated Financing:

Treasury issued new guidance for FY2000 which changed how equity is reported in certain funds. This affected funds in which appropriations are not received from the Treasury General Fund. The equity in these funds is now accounted for as cumulative results of operations instead of unexpended appropriations.

Note 17.

Prior Period adjustments:

This year's prior period adjustments of $14,155 are all related to corrections of recording capitalized property.

Note 18.

Appropriations Available for Investment but not Obligation:

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 Reclamatin Act of 1990 and the Energy Policy Act of 1992. The restricted balances for FY2000 are detailed below:

Appropriations Available for Investment

(Dollars in thousands)

Beginning Balance	$1,443,912
Add: Fee Collections	274,297
Add: Investment Interest	94,369
Less: Appropriations	196,208
Add: Appropriation Rescission	335
Less: Transfers Out	108,960
Ending Balance	$1,507,745

Note: Public Law 106-113 reduced the current year appropriation by $335,000. This recission 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 bureau, these financial statements include expired appropriated accounts which are unavilable 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 $4.7 million.

OFFICE OF SURFACE MINING
RECLAMATION AND ENFORCEMENT

Fiscal Year 2000 Financial Statements
and
Accompanying Footnotes
Prepared in accordance with
Federal Accounting Standards Advisory Board
Guidance

(dollars in thousands) SUPPLEMENTARY STATEMENT OF NET COST FOR THE YEAR ENDED SEPTEMBER 30, 2000

	Environmental Protection	Environmental Restoration	UMWA CBF Transfer	Total
COSTS				
Operating Costs				
Paid to the Federal Government	$9,000	$10,671	$0	$19,671
Paid to the Public				
UMWA Combined Benefit Fund Transfer	0	0	108,960	108,960
Paid to the Public	93,334	169,765	0	263,099
Total paid to the Public	93,334	169,765	108,960	372,059
Total Program Costs	$102,334	$180,436	$108,960	$391,730
Other Costs				
Interest Expense	1	0	0	1
Future Funding Expenses	141	58	0	199
Depreciation and Amortization	444	181	0	625
Net Loss on Disposition of Assets	70	29	0	99
Bad Debt Expense	1	1	0	2
Total Costs	$102,991	$180,705	$108,960	$392,656
LESS EARNED REVENUE				
From the Federal Government	1,748	251	0	1,999
From the Public	41	20	0	61
Total Earned Revenues	$1,789	$271	$0	$2,060
NET COST OF OPERATIONS	$101,202	$180,434	$108,960	390,596

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

(dollars in thousands) SUPPLEMENTARY STATEMENT OF CHANGES IN NET POSITION FOR THE YEAR ENDED SEPTEMBER 30, 2000

	Environmental Protection	Environmental Restoration	UMWA CBF Transfer	Total
NET COST OF OPERATIONS	$101,202	$180,434	$108,960	$390,596
FINANCING SOURCES				
Appropriated Capital Used	96,376	0	0	96,376
Donations	0	1	0	1
Interest Revenue	0	97,819	0	97,819
Other Non-Exchange Revenue	0	275,257	0	275,257
Imputed Financing Sources	2,599	1,062	0	3,661
Financing Sources Transferred-In/Out	1,500	(110,480)	108,960	(20)
Fines and Penalties - Public	0	85	0	85
Financing Sources	$100,475	$263,744	$108,960	$473,179
Net Results of Operations	($727)	$83,310	$0	$82,583
Change in Accounting for Non-Appropriated Financing	0	289,066	0	289,066
Prior Period Adjustments	11	3	0	14
Net Change in Cumulative Results of Operations	($716)	$372,379	$0	$371,663
Change in Unexpended Appropriations	5,366	(289,066)	0	(283,700)
Change in Net Position	$4,650	$83,313	$0	$87,963
Net Position-Beginning of Period	30,698	1,629,371	0	1,660,069
NET POSITION - END OF PERIOD	$35,348	$1,712,684	$0	$1,748,032

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

Memorandum

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

From: Robert J. Ewing, Chief Financial Officer

Subject: Management Representation for Office of Surface Mining (OSM)
Fiscal Year 2000 Financial Statements

Date: December 30, 2000

This memorandum is in connection with your audit of the Office of Surface Mining Principal Statements (also referred to as "financial statements")—the Statement of Financial Position as of September 30, 2000, and the related Statements of Net Cost of Operations, Changes in Net Position, Budgetary Activity, and Financing for the fiscal year then ended, and other information presented in the financial report for the purposes of: (1) expressing an opinion as to whether the Principal Statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, 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, 2000.

We confirm, to the best of our knowledge and belief, the following representations made to you during the 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, 1999.

1. We are responsible for the presentation of the Principal Statement and Required Supplementary Information in conformity with generally accepted accounting principles.

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. Related party transactions and related accounts receivable or payable, including assessments, have been properly recorded and disclosed.

7. All significant intra-bureau transactions and balances have been appropriately identified and eliminated for financial reporting purposes, unless otherwise noted. All intra-governmental transactions and balances have been appropriately recorded, reported, and disclosed. We have reconciled significant intra-governmental transactions and balances with the appropriate trading partners for the four fiduciary transactions identified in Treasury's *Intra-governmental Fiduciary Transactions Accounting Guide,* and other intra-governmental asset, liability, and revenue amounts as required by OMB Bulletin 97-01, as amended.

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

9. 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 effect on the Principal Statements or Required Supplementary Information) or any fraud involving management or employees who have significant roles in internal control .

10. 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.

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

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

13. 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 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.

14. 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 that have not been accrued or disclosed, 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, that have not been disclosed.

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

16. 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 Principal Statements and Required Supplemental Information in accordance with generally accepted accounting principles and ensure that assets are safeguarded 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's Audit Bulletin; 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.

17. Those controls in place on September 30, 2000, provided reasonable assurance that the foregoing objectives are met.

18. We are responsible for implementing and maintaining financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger (SGL) at the transaction level.

19. 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 guidance issued by OMB.

20. 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 September 30, 2000.

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

22. 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.

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

24. No events or material transactions have occurred subsequent to September 30, 2000, that have not been properly recorded in the Principal Statements and Required Supplementary Information or disclosed in the Notes thereto.

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

cc: Acting Assistant Secretary
Policy, Management and Budget

C-IN-OSM-024-00-R

United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

MAR - 7 2001

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 Year 2000 (No. 01-I-273)

We found that the Office of Surface Mining Reclamation and Enforcement's (OSM) principal financial statements[1] for fiscal year 2000 were fairly presented in all material respects. Our tests of the OSM's internal controls identified no material weaknesses, reportable conditions, or problems in performance measure reporting. In addition, our tests of the OSM's compliance with applicable laws and regulations found no instances of noncompliance that are required to be reported under the "Government Auditing Standards" or Office of Management and Budget Bulletin 01-02.

We also found that the information presented in the Management Discussion and Analysis section and the supplementary information sections of the OSM's Accountability Report for fiscal year 2000 were consistent with the principal financial statements.

Since this report does not contain any recommendations, a response to the Office of Inspector General 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.

The Independent Auditors Report is intended for the information of management of the Department of the Interior, the Office of Management and Budget, and the Congress. The report, however, is a matter of public record, and its distribution is not limited.

Roger La Rouche

Roger La Rouche
Assistant Inspector General
for Audits

[1] The OSM's principal financial statements consist of the Consolidated Statement of Financial Position as of September 30, 2000 and the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Consolidated Statement of Budgetary Resources, and the Consolidated Statement of Financing for the fiscal year ended September 30, 2000.

Independent Auditors Report
Office of Surface Mining Reclamation and Enforcement Financial Statements Fiscal Year 2000

We have audited the Office of Surface Mining Reclamation and Enforcement's (OSM) principal financial statements for the fiscal year ended September 30, 2000. The OSM principal financial statements consist of the Consolidated Statement of Financial Position as of September 30, 2000 and the Consolidated Statement of Net Cost, the Consolidated Statement of Change in Net Position, the Consolidated Statement of Budgetary Resources, and the Consolidated Statement of Financing for the fiscal year ended September 30, 2000. These financial statements are the responsibility of the 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 (OMB) Bulletin 01-02, "Audit Requirements for Federal Financial Statements." These 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 contained 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, as well as evaluating the overall financial statement presentation. We believe that our audit work provides a reasonable basis for our opinion. The objective, scope, and methodology of our audit are discussed in the Appendix.

Opinion on Principal Financial Statements

In our opinion, the principal financial statements audited by us and appearing on pages 24-42 present fairly, in all material respects, the financial position of the OSM as of September 30, 2000 and its consolidated net cost, changes in net position, budgetary resources, and financing activities for the fiscal year ended September 30, 2000 in conformity with generally accepted accounting principles.

As discussed in Note 16, the OSM changed its accounting for appropriations of trust and special receipt revenues in accordance with new guidance from the Department of Treasury. This change required a restatement of the beginning balances from Unexpended Appropriations to Cumulative Results.

Our audit was conducted to form an opinion on the principal financial statements taken as a whole, and our opinion relates only to the principal financial statements. The supplemental financial and management information contained in the OSM's Accountability Report is presented for the purposes of additional analysis and is not a required part of the principal financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board or OMB Bulletin 97-01, "Form and Content of Agency Financial Statements," as amended. We applied certain limited procedures, including discussions with management, on the methods of measurement and presentation of this information to ensure compliance with OMB guidance and consistency with the financial statements. We found that the information presented in the Management Discussion and Analysis and the supplementary information sections of the OSM's Accountability Report for fiscal year 2000 were consistent with the principal financial statements. This information, however, has not been subjected to the auditing procedures applied in our audit of the principal financial statements, and accordingly, we express no opinion on it.

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 Bulletin 01-02.

In planning and performing our audit, we considered the OSM's internal controls over financial reporting by obtaining an understanding of the internal controls, determining whether the internal controls had been placed in operation, assessing control risks, and performing tests of controls to determine our auditing procedures for the purpose of expressing an opinion on the principal financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in Bulletin 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal controls, and accordingly, we do not express an opinion on the internal controls.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal controls over financial reporting

that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls that, in our judgment, could adversely affect the OSM's ability to record, process, summarize, and report financial data consistent with the assertions made 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. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected.

We noted no matters involving internal controls and their operation that we consider to be material weaknesses or reportable conditions.

Performance Measures

In addition, with respect to internal controls related to performance measures reported in the Management Discussion and Analysis, we obtained an understanding of the design of the significant internal controls relating to the existence and completeness assertions, as required by Bulletin 01-02. Our procedures were not designed to provide assurance over internal controls over reported performance measures, and accordingly, we do not provide an opinion on such controls.

Report on Compliance With Laws and Regulations

We conducted our audit in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States, and with Bulletin 01-02.

Management of the OSM is responsible for complying with applicable laws and regulations. As part of obtaining reasonable assurance as to whether the OSM's financial statements are free of material misstatement, we performed tests of the OSM's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in Bulletin 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to the OSM.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph, exclusive of the FFMIA, disclosed no instances of noncompliance that are required to be reported under the "Government Auditing Standards" or Bulletin 01-02.

Under the FFMIA, we are required to report whether the OSM'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. To meet this requirement, we performed tests of compliance with the FFMIA section 803(a) requirements.

The results of our tests disclosed no instances in which the OSM's financial management system did not substantially comply with the three requirements discussed in the preceding paragraph.

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.

Prior Audit Coverage

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

In December 1999, the Office of Inspector General issued the report "General and Application Controls Over Automated Information Systems, Office of Surface Mining Reclamation and Enforcement" (No. 00-I-138). The report contained 38 recommendations addressing the ineffectiveness of the general controls over the OSM's automated information systems. During 2000, the Office of Inspector General did a followup review of the OSM's general and application controls over automated information systems. The Office of Inspector General concluded that the OSM took corrective actions on the recommendations and significantly improved the general controls over its automated information systems and is now in substantial compliance with the Federal financial management systems requirements under the FFMIA.

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 the Department of the Interior, the OMB, and the Congress. This report, however, is a matter of public record, and its distribution is not limited

Roger LaRouche

Roger La Rouche
Assistant Inspector General
for Audits
December 30, 2000

Appendix

Objective, Scope, and Methodology

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

- Preparing the principal financial statements and the required supplementary information in conformity with generally accepted accounting principles and preparing the other information contained in the Accountability Report for fiscal year 2000.

- 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 OSM's principal financial statements.

- Obtaining an understanding of the internal controls based on the internal control objectives contained in Bulletin 01-02, which require that transactions be properly recorded, processed, and summarized to permit the preparation of the principal financial statements and the required supplementary 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 the 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 principal 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 Accountability Report.

- 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 related to the operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls related to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to those controls needed to achieve the objectives outlined in our report on internal controls.

Office of Surface Mining
1951 Constitution Ave., N.E.
Washington, D.C.
20240
www.osmre.gov
getinfo@osmre.gov

December 30, 2000