

GAO

Report to the Ranking Minority Member,
Subcommittee on Government Efficiency,
Federalism, and the District of Columbia,
Committee on Governmental Affairs, U.S.
Senate

October 1988

SURFACE MINING

Complete Reconciliation of the Abandoned Mine Land Fund Needed



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United States
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Washington, D.C. 20548

**Resources, Community, and
Economic Development Division**

B-226046

October 28, 1988

The Honorable John Heinz
Ranking Minority Member
Subcommittee on Government Efficiency,
Federalism, and the District
of Columbia
Committee on Governmental Affairs
United States Senate

Dear Senator Heinz:

Your February 16, 1988, letter requested that we (1) review the procedures the Office of Surface Mining Reclamation and Enforcement (OSMRE), Department of the Interior, used in updating the national abandoned mine land inventory and (2) analyze the 1988 reconciliation of the Abandoned Mine Reclamation Fund that OSMRE, which has been delegated responsibility for the fund by the Secretary of the Interior, performed to correct past errors in grant payments to states. On March 21, 1988, we briefed your office on the results of our review of OSMRE's inventory update procedures. Subsequently, we issued a report on this subject to the Chairman and Ranking Minority Member of the Subcommittee on Interior and Related Agencies, House Committee on Appropriations.¹ As agreed with your office, this report focuses on the issue related to the fund reconciliation.

In summary, we found that OSMRE did not perform a complete reconciliation of the fund from its inception. Instead, OSMRE's reconciliation was limited to assuring that the overall fund balance, collections, and grant data used to calculate the fiscal year 1988 grant distribution agreed with OSMRE's official accounting records. OSMRE made no attempt to correct other known errors in key data elements in the formulas used to calculate annual state grants. These errors not only affect past and current year allocations, but also have a cumulative affect on future years' allocations. Moreover, the lack of adequate internal controls over the allocation process makes it likely that errors will continue to be made. We believe that OSMRE should perform a complete reconciliation of the fund balances to use in making future grant allocations. In addition, OSMRE should develop formal allocation policies and procedures and

¹See our report entitled Surface Mining: Information on the Updated Abandoned Mine Land Inventory (GAO/RCED-88-196BR, July 22, 1988).

other internal control measures to ensure that states receive their proper grant funds.

Background

To promote the reclamation of mined areas left abandoned before enactment of the Surface Mining Control and Reclamation Act of 1977 (SMCRA), the Congress established an Abandoned Mine Reclamation Fund, commonly called the Abandoned Mine Land (AML) Fund, to be administered by the Secretary of the Interior. Reclamation fees, paid quarterly by all coal mine operators, represent 99 percent of the deposits into the AML Fund. The remaining deposits come from (1) late charges imposed on operators who do not pay their reclamation fees on time and (2) revenues generated by the sale of coal produced as a byproduct of state and federal abandoned mine reclamation projects. Of the almost \$2 billion deposited into the AML Fund as of September 30, 1987, about \$1.6 billion had been appropriated by the Congress to administer the AML program and reclaim abandoned mine lands, leaving an unappropriated AML Fund balance of about \$0.4 billion.

Under SMCRA, 50 percent of the fees collected from mining operations in any state or on Indian lands are to be ultimately returned to the state or Indian tribe in the form of annual grants. This percentage is referred to as the "state share." The remaining 50 percent—known as the Secretary's discretionary share or the "federal share"—may be spent largely at the discretion of the Secretary of the Interior, either directly or through additional grant funds to the states.²

Under its AML Program, OSMRE provides grants to states having approved reclamation programs to address such problems as underground fires, subsidence, slides, open shafts, unstable refuse piles, and acid drainage. Until fiscal year 1984, state reclamation program grants were funded primarily from state share moneys in the AML Fund. Thereafter, OSMRE supplemented the state grants with funds from the Secretary's discretionary share.

Several different allocation formulas were developed to determine the proportion of the total grant that would come from the federal share of the AML Fund versus the state share. (App. I contains a history of AML Fund allocations for fiscal years 1981 through 1987.) However, with the

²Up to 10 percent of the Secretary's discretionary share of the AML Fund is to be reserved to assist small coal operators in obtaining mining permits and up to 20 percent is to be allocated to the Secretary of Agriculture to reclaim rural abandoned mines.

exception of the fiscal year 1986 formula, the total state grant amount and/or the portions paid out of the state and federal shares were dependent on the state's share balance in the AML Fund relative to other states. Any error made in determining a state's AML Fund share balance not only affects that state's grant allocation but all other state allocations. Correct accounting of these balances is therefore critical to OSMRE's ability to allocate grant funds to states in accordance with its allocation formulas.

OSMRE's Division of Financial Management, Denver Finance Center, maintains the agency's official accounting records for the AML Fund. Its Advanced Budget/Accounting Control and Information System tracks collections by state, AML appropriations, and all grants and cooperative agreements that have been charged to the AML appropriation.³ The accounting system, however, does not identify whether expenditures are to be charged against the state or federal share balances of the AML Fund.

It was not until 1986 that OSMRE headquarters developed a system—the AML Grant Tracking System—to record prior years grant and cooperative agreement data and to track these future expenditures from the state and federal share balances. The AML Grants Tracking System is the only system OSMRE maintains to record the federal and state share contributions toward AML Fund grants and thus is the sole source of data for determining state and federal share balances in the AML Fund.

Shortcomings in OSMRE's Fiscal Year 1988 Reconciliation of the Share Balances in the AML Fund

OSMRE did not perform a complete reconciliation of the AML Fund in that past errors in determining state share balances (and hence the allocation of funds to the states) were not corrected. In December 1987, OSMRE's Technical Support Branch staff, responsible for allocating the AML grant funds, found that the share balances used in the draft 1988 state apportionment formula were in error. According to OSMRE documents, in isolating this error, it became evident that other errors existed in the AML Grants Tracking System. For example, the prior year's (fiscal year 1987) fund balance was found to be incorrect because of tracking system errors in collections and grants data. In addition, these documents indicated that fee collections data in OSMRE's accounting system may also be incorrect. Because each of these problems can impact grant allocations

³Until states were granted exclusive responsibility and authority to reclaim abandoned mine lands within their borders, OSMRE entered into cooperative agreements with the states for developing both their overall reclamation plans and their first annual project program.

both total and individually, the Chief, Technical Support Branch, decided to reconstruct the fund balance as of September 30, 1987, and correct the errors in the AML Grants Tracking System through a reconciliation with OSMRE's official accounting records. In addition, OSMRE has awarded a contract to an independent auditor to reconcile the collections data in the accounting system.

According to OSMRE officials, however, the agency did not correct known errors in the state share balances crucial to the state allocation process. Although OSMRE's accounting system provided collections, grant, and cooperative agreement data as of September 30, 1987, the system could not be used to determine the grant amount to be charged against the federal and state share accounts. Further, the state grant agreements did not specify the AML Fund account—the state or federal share—that would be charged. Therefore, the annual federal share percentages recorded in the AML Grants Tracking System for each state were applied to the grants. For example, if the accounting records indicated that Pennsylvania received a grant for \$100,000 and the AML Grants Tracking System showed a 60-percent federal share percentage for that year, then \$60,000 would be charged against the federal share of the AML Fund, with the remaining \$40,000 charged to Pennsylvania's share. The resulting state and federal share balances were then used in making the fiscal year 1988 state AML grant allocations.

While OSMRE officials knew that the AML Grants Tracking System data were inaccurate, these officials told us that no attempt was made to go back and reconcile prior years' AML Fund allocations or to recalculate the federal and state share percentages for each year using correct collection and grant award data for each state. According to these officials, OSMRE did not want to revise state share balance figures previously provided to the states. OSMRE officials agreed, however, that incorrect state share balances, which form the basis for the allocation formula, not only affect the current year allocation but also cumulatively affect future years' allocations.

Lack of Internal Control Over OSMRE's Allocation Process

OSMRE has not established adequate internal controls over its AML Fund allocation process. Our review disclosed that OSMRE did not have (1) adequate documentation to support past allocation decisions, particularly those made before fiscal year 1986 or (2) policies and procedures that could be used to recreate and verify past decisions.⁴ We have long maintained that well-defined policies and procedures are an integral element in establishing and maintaining adequate internal control systems. Adequate procedures include instructions on how to (1) allocate funds, (2) document transactions, and (3) perform supervisory reviews.⁵ For example, to reduce the risk of errors in allocation computations, OSMRE could review the computations for accuracy. The Department of Education uses this procedure in calculating the amount of formula grants expected to be awarded to insure that each grantee receives the proper funds and that individual grant amounts will not exceed the funds available.⁶ OSMRE Technical Support Branch officials agreed that the agency had not established such internal control procedures to ensure that the data in the AML Grants Tracking System were complete and accurate or that the allocation calculations were correctly performed.

Because of the weaknesses we identified, we were unable to determine:

- why particular allocation methods were used,
- the accuracy of the calculations made to determine a state's reclamation program grant, or
- what portion of the grants should have been funded from the state and federal shares of the AML Fund.

Until OSMRE implements adequate policies and procedures, including the documentation of grant allocations, it cannot provide Interior, the states, or the Congress reasonable assurance that (1) AML funds have been allocated equitably and (2) the fund balances for an individual state are accurate.

⁴OSMRE could provide only two written policies or procedures covering the allocation process. One was an undated draft OSMRE Directive, entitled Allocation of AML Grant Funds, that provided policy and procedures to be used by OSMRE in allocating fiscal year 1988 funds, and the other was an OSMRE Directive entitled Use of Deobligated/Unrequested AML Grant Funds, dated August 5, 1987, that provided guidance on the use of unobligated or unrequested grant funds.

⁵Internal controls that federal agencies are required to follow are set forth in GAO's Standards for Internal Controls in the Federal Government, published in 1983 pursuant to the Federal Manager's Financial Integrity Act of 1982.

⁶Fund Accountability: Procedures Used for Selected Benefit/Mandatory Spending Programs Are Adequate (GAO/AFMD-88-30, Jan. 27, 1988).

The following sections summarize the problems we found in the AML Grants Tracking System and in the state grants allocation formulas.

AML Grants Tracking System

Although state grant awards are dependent on the state and federal share balances in the AML Fund, OSMRE could not provide reliable documentation to substantiate the federal share percentage of the state reclamation program grants listed in the AML Grants Tracking System. Moreover, these percentages were not consistent with the federal and state share distribution calculations provided to us by OSMRE to demonstrate how fiscal years 1984 and 1985 appropriations were allocated to states.

OSMRE Technical Support Branch officials offered several possible allocation formula calculations that may have been used to distribute the AML appropriations to the states in fiscal years 1984 and 1985. However, we found that only one of the allocation formulas resulted in federal distributions reasonably close to those percentages contained in the tracking system for most of the states. Table 1 compares the federal share percentages using this fiscal year 1984 allocation formula with those contained in the AML Grants Tracking System.

Table 1: Federal Share Percentage - AML Grants Tracking System vs. Calculated Percentages (Fiscal Year 1984)

Figures in Percent

State	AML Grants Tracking System	Calculated federal share distribution	Absolute difference
Alabama	32.00	32.43	0.43
Alaska	20.02	20.00	.02
Arkansas	64.71	64.71	.00
Colorado	1.81	1.81	.00
Illinois	23.50	23.49	.01
Indiana	16.06	16.06	.00
Iowa	74.57	75.00	.43
Kansas	65.37	65.22	.15
Kentucky	16.37	16.37	.00
Maryland	24.42	24.56	.14
Missouri	37.95	69.40	31.45
Montana	.81	.81	.00
New Mexico	4.37	4.35	.02
North Dakota	70.36	7.91	62.45
Ohio	55.11	55.11	.00
Oklahoma	51.60	51.69	.09
Pennsylvania	59.61	67.76	8.15
Tennessee	46.04	44.80	1.24
Texas	3.73	3.70	.03
Utah	4.06	4.07	.01
Virginia	19.24	19.24	.00
West Virginia	28.88	25.32	3.56
Wyoming	6.75	6.75	.00

To illustrate the impact of different percentages on Pennsylvania's fiscal year 1984 grants of about \$31.2 million, we noted that the federal contribution to the state's 1984 grants using the Tracking System would be about \$18.6 million whereas using the calculated figure the federal contribution would be about \$21.1 million. Therefore, the resulting state share balance, used in determining grant allocations, would vary by \$2.5 million depending on the percentage used. OSMRE officials could not explain the differences in table 1 or how the percentages contained in the Tracking System were determined.

In addition, our review of the AML Grants Tracking System's Funding Profile for Pennsylvania identified several other computational or data entry errors which cast doubt on the validity of the tracking system information. These errors include (1) inconsistent/incorrect percentages

applied to grants in charging the state and discretionary shares of the fund, (2) inconsistencies in the application of share distribution percentages for prior year deobligations, and (3) transactions recorded in the wrong fiscal years. Each of these errors affects Pennsylvania's state share balance and, as a result, makes any allocations made based on this data inaccurate.

State Grant Allocation Formulas

According to OSMRE Technical Support Branch officials, fiscal year 1984 through 1988 state reclamation grants were determined through various allocation formulas. Although OSMRE officials provided us with copies of the allocation formula calculations, they were unable to provide documentation to show why a particular allocation formula was selected, who approved its use, or why deviations were made in its execution. For example:

- In calculating the fiscal year 1985 allocation, the federal share portion of the grants initially established for six states was reduced. We were unable to determine with certainty why this occurred. According to an OSMRE official, however, this was probably done to prevent a given state's share from exceeding its AML Fund balance after applying the formula. However, in attempting to apply the formula that OSMRE officials suggested was the most likely one used, we found that negative state-share balances would have resulted in only three of the six states. Further, we noted that adjusting to prevent negative state-share balances was inconsistent with the fiscal year 1984 allocation calculations provided to us which had negative state-share balances for both Kansas and Missouri.
- In fiscal year 1987, the Alabama and Wyoming grants were not fully adjusted to reflect the amount of discretionary money obligated in the states during the prior year for emergency reclamation projects.⁷ Technical Support Branch officials and the Chief of OSMRE's Division of Abandoned Mine Land Reclamation told us that this error resulted in less grant funds allocated to other states, including about \$192,000 for Pennsylvania. However, the Technical Support Branch staff member who made the calculations said that the adjustments made for Alabama and Wyoming were not an error. Rather, the staff member said that the adjustments were made at the direction of a supervisor who has subsequently left the agency.

⁷Using the Secretary's discretionary funds, OSMRE provides immediate relief from hazards that threaten public health and safety. Beginning in fiscal year 1987, each state's federal share was offset by subtracting the amount of previous year emergency moneys obligated and/or expended in that state.

-
- In applying the fiscal year 1988 allocation formula, the historic coal production tonnage figure for Alaska was incorrect. Instead of 13.5 million tons, 136.1 million tons was used in the formula. This error increased the grant award to Alaska while reducing the other state grant awards.

OSMRE officials agreed that computational and data entry errors had been made in executing the grant allocation formulas.

Conclusions

Because accurate AML Fund share balances are essential to determining a state's grant award and the federal contribution to the award, we believe that OSMRE should perform a complete reconciliation of the fund balances to use in making future grant allocations. In addition, we believe that OSMRE should (1) clearly document and make readily available for examination all actions affecting past and future allocation decisions, (2) develop formal policies and procedures for allocating AML funds to the states, and (3) independently verify the state grant allocation calculations to ensure that the calculations are made correctly and each state receives its proper grant funds.

Recommendations

We recommend that the Secretary of the Interior have the Director, OSMRE,

- modify the accounting system to identify expenditures charged against the state and federal share balances of the AML Fund and specify in the grant agreement the source of the grant funds,
- reconcile the AML Fund balances using historical allocation formulas and corrected input data to assure their accuracy to use in making future grant allocations, and
- develop written AML Fund allocation policies and procedures, clearly document all actions affecting state allocations, and independently verify the allocation of grant funds to the states.

We conducted our review from March 1988 through August 1988 in accordance with generally accepted government auditing standards. We interviewed OSMRE officials in Washington, D.C., responsible for allocating AML funds to the states and reviewed the (1) data contained in OSMRE's AML Grants Tracking System for Pennsylvania, (2) grant allocations for fiscal years 1984 through 1988, (3) methods used to determine the state and discretionary share balances of the AML Fund as well as the accuracy of the actual balances, (4) reconciliation of the allocation

data to Interior's official accounting records, and (5) reconciled grant data for Pennsylvania. Our review included examining OSMRE's internal controls over the AML Fund appropriation process.

We discussed the information obtained during the review with OSMRE officials and have incorporated their comments where appropriate. However, in accordance with your request, we did not obtain official agency comments on a draft of this report.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to interested parties and make copies available to others upon request.

This work was performed under the direction of James Duffus III, Associate Director. Other major contributors are listed in appendix II.

Sincerely yours,

A handwritten signature in cursive script that reads "J. Dexter Peach". The signature is written in black ink and is positioned above the printed name and title.

J. Dexter Peach
Assistant Comptroller General

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Abbreviations

AFMD	Accounting and Financial Management Division
AML	Abandoned Mine Land
GAO	General Accounting Office
OSMRE	Office of Surface Mining Reclamation and Enforcement
RCED	Resources, Community, and Economic Development Division
SMCRA	Surface Mining Control and Reclamation Act of 1977

History of AML Fund Allocations—Fiscal Years 1981-1987

The following is a history of the AML Fund allocations for fiscal years 1981 through 1987.

1981	Fund allocation based on the amount requested for the two states with approved programs—Montana and West Virginia. 100 percent state-share funds.
1982	Fund allocation based on the amount requested by the states. 100 percent state-share funds.
1983	Fund allocation based on the amount requested by the states. 100 percent state-share funds.
1984	Fund allocation was based on state grants requests. Each state's requested grant was reduced proportionately to enable the allocation not to exceed the appropriation for fiscal year 1984. The discretionary share of each state's allocation was based on a formula consisting of the federal share divided by the sum of the federal and state shares for each state. Each state's total allocation minus the federal share equaled the state's share of the allocation.
1985	The fiscal year 1985 allocation was the same as for fiscal year 1984.
1986	The fiscal year 1986 allocation was based on a formula as follows: (1) the state share of the appropriation was determined by taking one-half of the total AML appropriation (including federal costs). That one-half was then subtracted from the amount appropriated for AML grants to arrive at the discretionary share of the grant allocation, (2) the state share was distributed based on the amount of reclamation fees collected in each state during the previous year—1985, and (3) the discretionary share was distributed based on 50-percent AML inventory and 50-percent historic coal production. The discretionary share was then adjusted to deduct and redistribute the amounts obligated during fiscal year 1985 for federal emergency projects.
1987	The fiscal year 1987 allocation was based on a formula as follows: (1) the state share of the appropriation was determined by dividing the sum of the states' share balances in the AML Fund by the total unappropriated balance in the fund. The discretionary share was then the difference in the amount appropriated for AML grants and the amount determined to be the state share of the appropriation, (2) the state share of the appropriation was distributed to each state according to that state's share balance as a percent of the sum of all state-share balances, and (3) the discretionary share was distributed based on 50-percent AML inventory and 50-percent historic coal production. The discretionary share was then adjusted to deduct and then redistribute the amounts obligated during fiscal year 1986 for federal emergency projects.

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